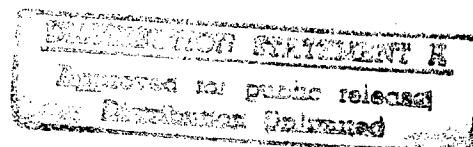


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GENERAL

Prospects for Change in U.S.-Israeli Relations

91CM0252A Beijing LIAOWANG [OUTLOOK]
in Chinese No 23, 8 Dec 90 pp 10-11

[Article by Gao Ping (7559 1627): "U.S.-Israeli Relations in the Midst of Change"]

[Text] Since it was founded in 1948, Israel has been in four wars in the Middle East and has gradually developed into a regional economic and military power. It has depended on the support of the United States. In the more than four decades since the end of World War II, the United States has fostered Israel in order to make it a reliable strategic pillar in the Middle East. Serving global U.S. strategy has been the main aim of providing Israel with military aid. Nevertheless, there have been contradictions in U.S.-Israeli relations in recent years that will continue following changes in the international situation and detente in U.S.-Soviet relations, and in particular since the Gulf crisis erupted. The United States may be forced to reappraise its strategic relationship with Israel.

The Effect of U.S.-Soviet Detente

Under the influence of the bipolar situation since the end of the war, the Middle East has consistently been an important region for the two contending superpowers. Traces of direct or indirect meddling by the United States and the Soviet Union can be seen in each of the postwar Middle East wars or crises. Therefore, Arab-Israeli conflicts essentially are tests of strength between Washington and the Kremlin. If the war ends in failure for Israel, then the Soviet Union, the supplier of arms to the Arab world, will dominate the Arab world, thereby threatening the U.S. position and fundamental interests in the Middle East. Thus, for many years now the United States has supplied Israel with a steady stream of major military aid, forming a tight strategic alliance. As for Israel, it has had to rely closely on the United States in order to ensure its own existence, realize its "great Israel" plan, and counter the hardline Arab countries backed by the Soviet Union.

However, there have been sharp changes since Gorbachev came to power in the Soviet Union in the mid-1980's and began promoting his "new thinking" on diplomatic policy. First, the Soviet Union has changed its former overbearing expansionist stance and has begun to draw back from various hot spots. It has lessened active support for such hardline Middle East countries as Syria and Iraq and has intensified improved relations with certain moderate countries in the region. Second, regarding resolution of the Middle East question, the Soviet Union also emphasizes the need to use "new political thinking." It asks each side to replace "conflict and antagonism" with "reconciliation and cooperation." It proposes convening a peace conference to fully resolve the Middle East question. Third, the

Soviet Union has closer relations with Israel. In recent years, there have been continuously more government-level contacts between the two. In mid-September 1990, Gorbachev received the Israeli finance and energy ministers in Moscow. This was the first time that Soviet heads of state had received an Israeli Government minister since the two countries broke off diplomatic relations in 1967. On 30 September, Soviet-Israeli diplomatic relations were upgraded to consular status, indicating a great improvement. In addition, the Soviet Union also relaxed restrictions on emigration to allow a large number of Soviet Jews to emigrate to Israel.

All of this is quite different from the Soviet Union's past acts and deeds in the Middle East. In the view of the United States, the Soviet Union is no longer a major threat, so it need not continue to rely so heavily on Israel's service as during the cold war. Of course, the interests of the United States in the Middle East may still be threatened, but such threats may come from certain regional powers instead of the Soviet Union. The United States cannot at all rely on Israel's support to counter these regional powers. On the contrary, due to the intricacies of country-to-country relations in the Middle East, the overreliance of the United States on Israel may bring it unnecessary trouble. Therefore, in the U.S. view, U.S.-Israeli strategic relations are no longer as important as they once were.

Gulf Crisis Assault

The Iraqi invasion of Kuwait and resulting Gulf crisis of August 1990 have destroyed a strategic balance. Although it was a regional conflict, it spread to many other areas and is even of a global nature. U.S.-Israeli relations naturally were affected. After the crisis erupted, one country after another issued strong reactions unanimously condemning the Iraqi invasion. The crisis also brought about cracks in the Arab world; the majority of Arab nations support Kuwait and oppose the Iraqi invasion. Egypt, Syria, and other nations even dispatched and garrisoned troops in Saudi Arabia, forming a Western coalition led by the United States against Saddam Husayn. Iraq's world position became extremely isolated. To extricate itself from the difficulty, Iraqi President Husayn thought of all sorts of ways to use Arab nationalism to instigate and intensify Arab-Israeli conflict. To shift the line of sight, he aimed to win the Arab world's sympathy and support. On the one hand, Saddam repeatedly declared he would start a "holy war" to route the U.S. and Western military forces stationed in Saudi Arabia who "profane the Islamic holy land." He declared that involvement of Western military force was to "continue to plunder Arab wealth, strengthen the 'Zionist entity,' and support Israel's expansionist plans." On the other hand, he also proposed a so-called full solution to the Middle East question, tying in Iraq's invasion of Kuwait with Arab-Israeli conflicts so as to drag Israel into the Gulf crisis and create an advantageous situation for himself.

On 12 August, Husayn proposed negotiating a withdrawal of Iraqi forces from Kuwait provided that Israel remove its troops from the occupied territories and Syria withdraw its troops from Lebanon; the United States refused absolutely. Thereafter, Husayn repeatedly threatened Israel. He asserted that Iraq would make surprise attacks on Middle East oilfields and Israel if Israeli-U.S.-led sanctions threatened Iraq's existence. Obviously, if Israel were drawn into the Gulf crisis, this naturally would re-incite Arab enmity and lead to new Arab-Israeli conflicts, destroying the fragile U.S.-Arab anti-Husayn coalition. Thus, while promising that the United States would react strongly to a surprise attack on Israel by Iraq, the Bush government also warned Israel not to get involved. THE WASHINGTON POST in the United States reported that until now the United States has never sought even indirect military support from Israel for the crisis, such as medical supplies or fuel stations, fearing that assistance from Israel could only irritate Arab governments; there would be "little advantage and much trouble." In response, the Israeli Government said that it would not become actively involved. Furthermore, it would not give Iraq any cause for gossip. Under these conditions, it was just as a LOS ANGELES TIMES article stated, "Israel has become a burden for U.S. strategy."

A Glimpse at U.S.-Israeli Contradictions

Although for many years now U.S.-Israeli relations consistently have been very close, in recent years some differences have appeared. In particular, there has been tension and disputes over how to solve the Palestinian question. At the end of 1989, the United States proposed the "Baker plan" to resolve the issue, but it was not accepted by the rightwing Likud bloc of the Israeli united government. As a result, there were disputes between the two countries. In early 1990, the United States suggested that Israel and Palestine negotiate. Israeli Prime Minister Shamir refused, greatly displeasing Washington. After the Gulf crisis erupted, the United States wanted Israel to "keep a low profile, to avoid doing anything to elicit a strong verbal or military reaction from Iraq." Israeli public opinion generally was concerned that the United States would downgrade Israel's value as a strategic asset of importance in the Middle East. Some even worried that the United States could begin reducing its \$3 billion annual aid. On 1 October, in a speech to the United Nations, U.S. President Bush said that Arab-Israeli conflicts might be resolvable after Iraq's unconditional withdrawal from Kuwait. Israel was concerned about this manner of tying together resolution of the Gulf crisis with solving Arab-Israeli conflicts, even though Bush later repeated that his words were not meant to imply any connection between the two. On 8 October, Israeli police slaughtered Palestinian demonstrators in Jerusalem at the holy Temple Mount. The incident greatly annoyed the Bush government. In a televised speech, President Bush publicly censured Israel for not exercising "more restraint." Then, at a Security Council meeting, the United States voted support for

Resolution 672 to censure Israel's wanton use of force. Although the United States and other Security Council member states anxiously exchanged views for four days, toning down the wording of their censure of Israel as much as possible, this ultimately was the first time in the past decade that the United States supported a proposal in the Security Council to censure Israel. The Israeli representative to the United Nations complained that the "aim of the United States is a sustained anti-Husayn coalition in the Gulf. Israel has been made a sacrificial lamb." Furthermore, the United States and Israel recently have disagreed over the issue of the status of Jerusalem. In early October, the United States said that it agreed to provide Israel with a \$400 million housing loan guarantee. In explaining this statement, U.S. Secretary of State Baker said that the money would be used to construct housing for recent Soviet Jewish emigres. He said that to use the funds, Israel must promise that the immigrants would not be settled on the West Bank, the Gaza Strip, or in east Jerusalem. However, after Baker said this, Israeli Prime Minister Shamir announced that Israel would build new housing for Soviet emigres in east Jerusalem. Some U.S. newspapers said in response that the old issue of Jerusalem's status "might further destroy increasingly tense United States-Israeli relations."

The close relationship between the United States and Israel has lasted more than four decades. However, U.S. public opinion has taken note of rapid changes in the international situation over the past year or so. U.S.-Israeli relations cannot avoid being affected. Many papers have printed editorials saying that changes in the current political situation will compel the United States to reappraise its strategic relationship with Israel. It appears that changes in the two countries' relationship are unavoidable, although the degree of change awaits further observation. Nevertheless, after East-West detente and the end of the cold war, Israel's importance as a weight in the balance of U.S. global strategy is not what it used to be.

Changes in USSR, East Europe Discussed

91CM0253A Hong Kong LIAOWANG [OUTLOOK]
OVERSEAS EDITION in Chinese No 2, 14 Jan 91
pp 32-33

[By Cui Ji (1508 1142), senior editor: "Development in Soviet-East Europe Situation Not Yet Seen"]

[Text] During the past year, developments in the internal situation of the Soviet Union have been spectacular.

The programmatic policies passed by the 28th CPSU Congress that was convened in July indicated the status and function of the CPSU, as well as the political and economic structure of the Soviet Union. It gave rise to the following changes: First, the political structure will change from a single-party system to a multiparty system. Second, the state's highest policymaking center will change from the CPSU Central Committee Politburo to the president and the Supreme Soviet. Third,

state structure will change from a "single union of Soviet states" to a "sovereign union of republics." Fourth, the planned economy will make the transition to a "market economy that can be regulated."

During this year, there has been constant social unrest in the Soviet Union. President Gorbachev on 16 November declared, "The internal political situation has become even more complicated and acute. The lack of any settlement to the intense nationality relations has, in some areas, caused crisis situations... At present, there are genuine political struggles and power struggles being carried out... These struggles are confrontational; those taking part use every means at their disposal... An atmosphere of tension envelops our society." The seriousness of the Soviet's internal political situation can be seen from this analysis.

With political unrest, a loosening of ties within the union, and chaotic social order, the Soviet Union's economic situation has seriously worsened. According to data from the Soviet state statistical commission, national income for the first 10 months of 1990 decreased 3 percent compared with the same period in 1989, industrial output value dropped 0.8 percent, social labor productivity decreased 2 percent, and national income in 1990 dropped approximately 30 billion rubles. This means that the Soviet economy has witnessed its first negative increase since after the war. The domestic market has been unprecedentedly strained. Goods have been unusually scarce, prices have risen, there is inflation, the black market has run rampant, bumper crops are not harvested, and the food supply in some large cities has been critical.

President Gorbachev's speech of 7 December published by PRAVDA deserves attention. He said that they now clearly understand that, without a stable political situation and without executive bodies functioning effectively from top to bottom, nothing can be done. In other remarks, he stressed, "We must take strong measures of stable planning... We have to take a strong stand in steadfastly opposing disruptive activities."

Given the seriousness of the political unrest and economic difficulties that the Soviet Union now faces, it will probably be hard in the short term to resolve these issues. It still remains to be seen how the situation in the Soviet Union will develop in 1991. However, it is, after all, a country with a history of more than 70 years of socialism. Socialism has deep roots among its masses. And, at present, the CPSU is still in ruling positions throughout the union and in most of the republics, all of which indicates that the socialist option cannot be abandoned and that the newly transformed union must also have a socialist character. At the same time, the Soviet Union still possesses great economic potential. I am confident that the Soviet people, who in past years have experienced all kinds of hardships and triumphed over myriad difficulties, will overcome any obstacle that they encounter on the socialist road.

In 1989, the normalization of Sino-Soviet relations had a positive effect on the international situation. I hope and am confident that there will be further growth in Sino-Soviet ties during the new year.

In 1990, East Europe saw continued unrest that gave rise to some spectacular events and changes. First, following the general election defeat of the United Workers Party in Poland, other East European communist parties (some of which had changed their party names to socialist) one after the other also went down in defeat at the polls. Losing, they became the parties out of power. In the wave of anticommunism that occurred in some of the countries, a number of communist party personnel who had fallen from power were subjected to political discrimination, purges, and persecution. Second, following the coming to power of the opposition factions, new opposition factions cropped up. Some were factions or political groups of the ruling parties themselves that had split off or reorganized, thereby complicating even more the political struggles in these countries. This explains why East Europe will be seeing continued social and political unrest.

After the drastic political changes that took place, the six countries of East Europe all put policies into effect to denationalize and privatize their economies, thus moving toward total market economies. During the process, they met with massive difficulties and created even more chaotic and deteriorating economic conditions. Unemployment greatly increased and living standards dropped. The 3 November 1990 U.S. NEWS AND WORLD REPORT published an article on the situation which stated that, after a year of having been "intoxicated" by the dramatic changes in East Europe, the "illusion has greatly diminished... The prospects for instituting free market mechanisms are still difficult to ascertain... The expectation that Western companies would vie with each other to invest in East Europe and bring unforeseen good fortune has not materialized."

The magazine went on to say, "Everyone thinks that the situation in 1991 will be marked by people suffering." U.S. NEWS AND WORLD REPORT is of the opinion that, if East Europe—not including the region of East Germany—is to make basic improvements in its economy and catch up with the developed countries, "it could take several decades, rather than several years." Furthermore, the region's 130 million people "may not be willing to pay the extremely high cost that is needed to make this happen."

East Europe has been a world focal point for a great many contradictions in our era. The dramatic changes that occurred in East Europe are the result of the mutual effect of contradictions in the world situation as a whole. They are the result of a postwar Europe formed by changes produced by the world political order and the Yalta structure. Furthermore, the dramatic changes in East Europe further altered the strategic order of Europe and the world. Following their evolution, the East European countries pulled apart from the Soviet Union with

respect to foreign relations and drew closer to the West. The unification of the two Germanys, in particular, caused a strong Germany to appear on the map of Europe and the world and caused the Yalta structure, which was marked by U.S.-Soviet bipolar confrontation, to disintegrate further. A tendency toward a multipolarized world is developing. The political evolution of East Europe has not only brought massive assaults on the international communist movement and a tide of world anticommunism, it has also caused even greater difficulties for the Third World. In a number of places in Europe and in the world, territorial disputes, nationality contradictions, and regional conflicts could intensify. This all shows that the European strategic balance of power that was sustained for 45 years after the war has been destroyed and that the world strategic order has undergone a major transformation. It also shows that, prior to the establishment of new balance of power mechanisms, the many factors making for instability that exist in the world are giving rise to new conflicts and unrest. We will have to calmly watch who, in the final analysis, benefits from this important change in world affairs and who is harmed.

UNITED STATES

Assessment of Gulf War Impact on U.S. Economy

HK0403074991 Beijing GUOJI SHANGBAO in Chinese
14 Feb 91 p 3

[Article by Tian Yu (1131 7183): "The Gulf War and U.S. Economy"]

[Text] Air units of the U.S.-led multinational forces launched a fierce bombardment against Iraq on 17 January. The Gulf crisis which had lasted more than five months had eventually developed into a war. Undoubtedly, this will exert a great influence on the world economy and the U.S. economy in particular.

U.S. Economic Recession Has Become a Fait Accompli

According to figures disclosed by the U.S. Commerce Department, U.S. GNP in the fourth quarter of last year dropped by 2.1 percent over the third quarter, a negative growth emerging for the first time since the second quarter of 1986. Expenses in individual consumption, which account for two-thirds of the GNP, dropped by \$21 billion. U.S. economic growth for 1990 was 0.9 percent, the lowest since 1982. National consumer prices rose at an average of 6.1 percent in 1990 (4.6 percent in the previous year), the highest rate since 1981. Financial deficits for fiscal year 1990 amounted to \$220.4 billion, approaching the highest recorded and accounting for over 4 percent of the GNP. It is estimated that financial deficits for fiscal year 1991 will continue to rise and the figure for the first month has already reached \$31.5 billion, a 21-percent increase over the same period last year. U.S. bank credit is also facing a crisis. Of the 200 largest banks in the country, 15 have been ordered to

settle their accounts, resulting in a decrease in enterprise investment and acceleration of the recession process.

Continuation of War Will Further Damage U.S. Economy

The eruption of the Gulf war constitutes another disaster for the already grim U.S. economy. If the war lasts for more than three months, the U.S. economy will be aggravated and recovery will be further postponed for the following reasons:

First, it will seriously dampen investment and consumer confidence. If the war drags on, the situation will become more complicated. Moreover, oilfield facilities may be seriously damaged and other unexpected, grave consequences may occur. Instability and a sense of insecurity among U.S. industrial and commercial enterprises and consumers, and a lack of confidence in the future, will lead to a sharp drop in enterprise investment and consumption. By 20 January, U.S. demand for cars dropped 30 percent from the same period last year. The drop in car and housing consumption has resulted in depression in the manufacturing and building industries as well as a decline in iron and steel and other basic industries. Steel output totaled 84 million tons in 1990 and the figure will be cut by 8 million tons this year. The drop in production and overcapacity in transport are bound to hit the shipping trade.

Although oil prices have fluctuated following the eruption of the Gulf crisis, they remain higher than last year's lowest level. At present, the weekly cost of fuel for the U.S. aviation industry has increased by \$70 million over July last year and deficits in the shipping trade total \$2 billion, an all-time high. Since August last year, more than 10,000 staff members have been dismissed. A number of large companies, including Pan Am and Northwest, in turn applied for protection against bankruptcy. Passenger transport has also been hard hit by insecurity caused by the war and terrorist activities. Orders for air tickets for arrival in the United States as of November this year dropped by 50 percent over the same period last year. However, the number of passengers arriving in or leaving the United States, or going to other destinations via the United States, account for 50 percent of the world's total. Hence, the loss incurred on the U.S. economy is quite clear.

Second, the huge military spending and drastic increase in financial deficits. To date, the number of U.S. forces in the Gulf total 500,000. It has been reported that the cost of an F-15E aircraft now in service in the war is \$50 million; a Tomahawk cruise missile, \$1.35 million; an M-1A tank, \$4.4 million; and a Patriot missile, \$1.1 million. The United States has to bear a daily cost of \$500 million to continue the Gulf war. According to estimates by the U.S. Congress Bureau of the Budget, military spending by the United States in the Gulf war will reach \$17 billion a month or \$45 to \$50 billion for three months. January figures disclosed by the U.S. Government indicate that budget deficits for fiscal year

1991 may top \$300-325 billion. This does not include the huge costs in the Gulf war and deficits in social insurance items. If included, financial deficits will exceed an unprecedented \$400 billion. If the government issues treasury bonds or increases taxes for the sake of reducing financial deficits, and shifts the burden of war onto enterprises and the people, it will further reduce enterprise investment and individual consumption and lead to higher interest rates, further aggravating the economic recession.

Third, obstruction to oil supply, oil price increases, and aggravated inflation. Serious damage to oil facilities will severely hit the U.S. economy. The United States is the world's largest oil importer and imports account for over 50 percent of total domestic demand. Moreover, some 40 percent of the oil is imported from the Middle East. If the price increases from \$20 to \$30 a barrel, U.S. economic growth will drop by 1 percentage point and the rate of inflation will rise by 2 percentage points. Because of oil price increases following the eruption of the Gulf crisis, the inflation rate of the United States for the January-October 1990 period reached 6.7 percent. This was an increase of 2 percentage points over the 4.6 percent in the same period of the previous year and the highest growth for the past six years. According to OECD estimates, the U.S. inflation rate for the first half of this year will reach 5.4 percent, an increase of 0.9 percentage points over the same period last year. If the war continues, the figure will be higher, resulting in drastic fluctuations in the financial, foreign exchange, and raw material markets and seriously hitting the economy.

Early End to War Will Be Conducive To Easing the Economic Recession

The Gulf war cannot fundamentally resolve problems in the U.S. economy. If it can be finished in around three months, however, this will be conducive to easing the U.S. economy and creating conditions for its recovery.

First, stabilizing oil prices will increase confidence in enterprises and consumers. An early end to the war can reduce military spending, cause less loss of human and material resources, and retain the strength for economic recovery as well as prevent serious destruction of the oil facilities of Saudi Arabia and other neighboring countries. The price of oil can be stabilized so long as supply from the Middle East is ensured. A drop in oil prices will lead to a rise in stocks and the value of the U.S. dollar and a cut in interest rates, which will stimulate the U.S. economy and ease the recession.

Second, the government's economic recovery plan will be smoothly realized. In his State of the Union address at the end of January, Bush proposed the following measures for boosting the U.S. economy: Implementing a nationwide energy policy, thoroughly reforming the banking system, and transferring to various states expenses of about \$15 billion required for the federal plan. The aim is to stimulate the depressed economy by

means of reforming and readjusting the economic structure. However, implementation needs a fine external environment. Thus, only by ending the Gulf war, which enormously strains human and material resources, can it be possible to reassure the public and comprehensively increase input into the domestic economy.

Third, a short-term "war boom" will alleviate pressure on the economy. The United States is the world's largest munitions manufacturer. The U.S. munitions industry has been at a low ebb following reconciliation between the East and West since 1989 and large-scale arms reduction. This was also one of the latent factors leading to U.S. economic recession. Since 1988, the number of people unemployed in the U.S. munitions industry totaled 4.2 million. In 1990, many ordnance factories were changed into civilian ones. However, the Gulf war, which required huge daily expenditures, revived some U.S. ordnance factories which were on the verge of bankruptcy. A U.S. company manufacturing Patriot anti-missile systems now has 6,000 workers working day and night in rush production. A dozen countries have placed orders, offering the company business valued in the billions of dollars. U.S. companies manufacturing reconnaissance satellites and aircraft are also stepping up development of new products. Thanks to the war, the U.S. munitions industry is now in the middle of a short-term "war boom."

SOVIET UNION

Soviet Attache Discusses Military Reform

*HK0703050191 Beijing JIEFANGJUN BAO in Chinese
23 Feb 91 p 2*

[Report by staff correspondents Zheng Yongxiang (6774 3057 4382) and Wei Wei (7279 0251): "Wishing Further Improvement in Friendship Between the Armies of the Soviet Union and China—Interviewing Major General Broskunin, Defense Attache at the Soviet Embassy in China"]

[Text] On the eve of Soviet Army Day, the authors interviewed Soviet Military Attache Broskunin stationed in China. The interview occurred on the eve of Chinese New Year, when a strong festive atmosphere permeated the streets and alleys of Beijing, the sound of firecrackers could be heard outside the windows, and inside was filled with the warmth of spring. After exchanging festive greetings, Major General Broskunin answered questions from the authors regarding the reform and building of the Soviet Army.

The Soviet general said, "This 23 February commemorates the 73d anniversary of Soviet Army Day. The Soviet Red Army was founded on 28 January 1918. Soon after the founding of the Red Army was announced, Germany ended the Brest-Litovsk peace talks unilaterally and commenced armed intervention in the Soviet Union. The old Russian troops, who were defenseless before the enemy, abandoned their strongholds without

fighting. On 22 February, the Soviet Government promulgated the decree 'The Socialist Motherland Is in Crisis' calling on people to defend the motherland courageously. The laboring people vied with one another to join the Red Army. The newly founded worker-peasant Red Army units immediately engaged in battles with the Germans. On 23 February, Red Army units frustrated the enemy's invasion in the vicinity of the cities of Pskov and Narva, and forced the enemy to resume talks. In March 1918, they signed the Peace Treaty of Brest-Litovsk. This was of incalculable significance in wresting time to strengthen Soviet political power, adjust and improve the national economy, and build up the worker-peasant Red Army. In order to commemorate this meaningful day, 23 February is designated Soviet Army Day."

When answering questions regarding current reform in the Soviet Army, the major general said, "Today, the Soviet Army is carrying out reform. The major elements include readjustment of all Army components and the improvement of their quality indexes. Moreover, we will reduce their number and give them a purely defensive character. The specific tasks of reform include providing a scientific basis for ensuring that the national defense potential corresponds to the principle of reasonableness and adequacy; optimizing the organization and establishment of units and military command organs; formulating long-range plans for the Army's military technology to modernize military equipment; reforming cadre policies to democratize relations among military affairs; improving manpower resources replenishment and training systems for military cadres; and reforming Soviet Army political organs."

When answering questions on how the Soviet Army carries out political and ideological education, Major General Broskunin said, "Political and ideological work for Soviet troops is done by commanding officers at all levels and military political organs. Political and ideological work is aimed at ensuring high political moral standards for the troops and, during the current reform, relatively large changes are taking place in this area. These changes are aimed at instituting a social security system for the military and making Soviet citizens obey unconditionally the military service decree. Of course, under modern conditions, the Soviet Army's political and ideological work also takes into account changes in the international situation."

When asked about the progress in changing some Soviet military industries into civilian production, the military attache said, "The phrase 'changing military industries into civilian production' first appeared in our terminology only three years ago. Since this job has just begun, some of the good experiences we have gained are only preliminary. At present, civilian products turned out by military industries account for 40 percent of total daily consumer goods. Of course, during the process of changing military industries into the production of

civilian products, we have definitely encountered difficulties. To overcome these difficulties, we are formulating relevant laws regarding changing military industries into civilian production."

Major General Broskunin said there is a long history and traditional friendship backing the relations between the armies of the Soviet Union and China. Since President Gorbachev's visit to China in 1989 and Premier Li Peng's visit to the Soviet Union last year, relations between the two countries have further developed in all aspects, including military affairs. Military delegations of the two countries have continually expanded exchanges. Last June, Major General Liu Qinghua, vice chairman of the PRC Central Military Commission, visited the Soviet Union.

Finally, Major General Broskunin told these reporters, "Judging the situation as a whole, the Soviet Union and China have laid a good foundation for the exchange of military affairs, military technology, and army building. I hope that the friendship between the Soviet Union and China will continually develop and I wish the People's Liberation Army more achievements on its road ahead."

NORTHEAST ASIA

Anti-U.S. Sentiment Said Rising in Japan

OW2003161591 Beijing XINHUA in English
1445 GMT 20 Mar 91

[Text] Tokyo, March 20 (XINHUA)—Anti-U.S. sentiments which could affect the maintenance of the Japan-U.S. Security Treaty have been growing in Japan, reported local news media today, quoting a private think tank.

This appraisal is contained in an interim report, released by the Japan Institute of International Affairs, on how U.S. defense policies and its fiscal deficit affect bilateral security arrangements, YOMIURI SHIMBUN said.

The institute is headed by former Japanese ambassador to the United States Nobuo Matsunaga.

According to the institute analysis, the United States demonstrated its strong leadership in constructing "peace through international cooperation" during the Gulf crisis, but it is "highly probable" that U.S. elation and its overconfidence about the Gulf victory will lead the United States to treat its allies lightly, and eventually into isolationism.

The report also said that anti-U.S. nationalism, fueled by bilateral trade frictions and the Gulf crisis, is on the rise in Japan and it could have an adverse effect on the bilateral security treaty.

Following a series of bilateral talks on trade barriers, Japanese have increasingly come to feel that additional trade concessions to the United States are unnecessary, the report added.

Changing Situation on Korean Peninsula Viewed

91CM0254A Beijing LIAOWANG [OUTLOOK]
in Chinese No 53, 31 Dec 90 p 44

["Special dispatch from Pyongyang" by Zhang Jinfang (1728 6930 5364): "The Slow Orbit of Change in the Korean Peninsula"]

[Text] During the past year, the current of change in the international situation has had an effect on changes in the Korean peninsula. Rigid foreign relations and political structures are gradually changing, and through concerted efforts at dialogue and actions the North and South have overcome various difficulties and made some tortuous advances. Under a situation of coexisting dialogue and confrontation, the Korean peninsula and its surrounding area have maintained an outlook of overall stability and detente.

At the beginning of 1990, the North and South entered into a new round of multichannel discussions. Based on gains made during discussions in 1989, the North and South continued talks on jointly forming a team to participate in the 11th Asian Games, and also on problems in the two delegations for export of the arts and the delegations for homeland visitation. However, new issues raised by North Korea caused these negotiations to fall short of success, with discussions between the North and South concerning their disagreements being broken off when a crisis arose in the South Korean National Assembly. Even under the situation of contrasts formed during the previous discussions, the vice minister-level talks were able to achieve some breakthroughs with an agreement finally being reached on arranging talks between the premiers from the North and South.

North Korean Premier Yon Hyong-muk and South Korean Prime Minister Kang Yong-hun held their first meeting in Seoul during early February. They discussed major questions related to peace on the Korean peninsula and peaceful reunification. This first face-to-face meeting between premiers since Korea split 45 years ago is of major significance in relaxing the tense situation of the Korean peninsula and is an instrument for thawing relations between the North and South. By mid-December the two premiers had held three meetings, each side set forth its positions and explored possibilities for mutual concessions. Even though an agreement has not been reached, the two sides are working together in several ways and their sharp differences have changed to a more relaxed atmosphere of consultation. Both sides have agreed to make concerted efforts in the two areas of easing political and military confrontation and carrying out cooperation and exchange.

During the past year, North Korea has held high the banner of peace and peaceful reunification and has worked hard to promote detente on the Korean peninsula. During a New Year's Day speech President Kim Il-song put forward a new proposal to demolish the concrete wall and realize free contacts and an all-round

opening up for the North and South. In order to implement this proposal, the North called for a consultative conference that would include the government authorities and political party leaders from both sides. These consultations would cover the questions of ensuring the demolition of the concrete wall on the south side of the military demarcation line and free contacts and all-round opening up between the North and South. During the meetings between premiers, the North vigorously supported the signing of a "mutual nonaggression declaration," and the cutting of armed forces by stages so as to reduce confrontation between both sides and to create an atmosphere of peace and peaceful reunification. President Kim Il-song, during a meeting with Prime Minister Kang Yong-hun at Pyongyang, defined his positions of "one country, one people, two systems, two governments," and "as long as neither side tries to take over the other, then neither side will be taken over." He also expressed that if progress were made during the meetings of premiers, he would be willing to hold a summit meeting with South Korean President No Tae-u. The North Korean position takes into consideration the objective realities of the Korean peninsula and are in accord with the desires of people from both the North and South for peace and peaceful reunification.

While a surge in detente has been occurring between the North and South, a major change has also taken place in their foreign relations. Two of these changes that have attracted attention are the reestablishment of relations between the Soviet Union and South Korea and the start of normalizing Korean-Japanese relations.

The Soviet Union has been a traditional ally of North Korea, maintaining close relations with it for the past several dozen years. After Gorbachev's September 1988 speech on the Far East, the Soviet Union began to readjust its policies regarding the Korean peninsula and gradually improved its relations with South Korea. Visits to the Soviet Union by South Korea's Kim Yong-sam, acting as the leader of the opposition Reunification Democratic Party, and by senior committee members of the ruling Democratic Justice Party have established a bridge for reconciliation between the two countries. During June of this year, No Tae-u and Gorbachev held an unexpected meeting in San Francisco where they laid a foundation for reestablishing relations. On 1 October, the two countries set up ambassador-level relations, and during this period there was a marked increase in contacts between officials and people from the two sides. The Soviet Union's goal in improving bilateral relations with South Korea was to achieve political advantages and gain economic benefit. Because the Soviet Union has changed its policy toward the Korean peninsula, a realignment has begun in the mutual balance of this area's structure.

Since the liberation of Korea, relations between Japan and North Korea have been abnormal. Japan's adoption of a "leaning to one side" policy regarding South Korea resulted in a long period of hatred and hostility in its

relations with North Korea. In September 1990, a delegation of the ruling Liberal Democratic Party (LDP) and the major opposition Japan Socialist Party (JSP) visited Pyongyang. The delegation's chairman was Shin Kanemaru, a senior member of the LDP, while the vice chairman position was filled by Makoto Tanabe, vice chairman of the Central Executive Committee of the JSP. Following this, the Korean Workers Party quickly adjusted its policy toward Japan and welcomed the visit by the two party delegations from Japan with a positive attitude. These three parties from Korea and Japan issued a historical joint declaration urging negotiations on normalizing relations between the two countries. After this, officials from the two countries held two rounds of preparatory meetings where it was decided that official negotiations on normalizing relations would be held in January 1991. This step toward normalizing relations will undoubtedly help promote detente in the Korean peninsula and create conditions for realizing cooperation between Japan and Korea.

The United States has so far stayed on the side of South Korea, seeing it as a strategic base in the Asian-Pacific region. Therefore, in political and military aspects the United States has supported South Korea's "containment" strategy regarding the North. After the Soviet Union reestablished relations with South Korea, although the United States did not make any major changes to its Korean peninsula policy, it did become somewhat more flexible. With the decline of its national power, the United States is requiring South Korea to play a larger role in the area. The United States announced it would start a gradual reduction of its three military bases in South Korea along with 7,000 non-combat personnel, that South Korea would assume more of the military expenses, and that the operational control of the U.S.-Korean Unified Command and the duties as chief member of the UN Korean Military Armistice Commission would be turned over to South Korea.

Along with this, the United States also made some moves toward North Korea such as renewing foreign relation contacts, sending members of Congress to North Korea to receive the remains of military personnel from the Korean war, and supporting the simultaneous entry into the United Nations of both South Korea and North Korea.

Trouble in this area has been brewing for quite some time. The deep freeze in the Korean peninsula of the last several dozen years has just now started to thaw and the first steps in readjusting its domestic and foreign relations are just now beginning. The only way to realize peace and stability in the Korean peninsula is to abandon confrontation, increase dialogue, and gradually improve both internal and external conditions of the area.

SOUTHEAST ASIA/PACIFIC

Reconvening of Paris Meeting on Cambodia Urged

*OW2203092591 Beijing XINHUA in English
0841 GMT 21 Mar 91*

[Text] Beijing, March 22 (XINHUA)—Leaders of the three factions of the Cambodian resistance forces have called for re-convening the Paris International Conference on Cambodia to search for ways of settling the Cambodian conflicts, Radio Democratic Kampuchea broadcast Thursday.

In a joint communique dated March 19, the resistance leaders expressed support for the initiative of the co-chairmen of the conference, who are the Indonesian and French foreign ministers, to call another meeting of the co-chairmen and all members of the Cambodian Supreme National Council in Jakarta, Indonesia, to make preparations for the Paris conference.

CPC Third Generation Continues Mao's Thought

91CM0261A Chengdu MAO ZEDONG SIXIANG
YANJIU [STUDIES IN MAO ZEDONG THOUGHT]
in Chinese No 4, 1990 pp 13-17

[Article by Du Xiansong (2629 6343 2646), National Defense University; Zhang Guoxin (1728 0948 2450), responsible editor: "CPC's Third Generation Continues Mao Zedong Thought"]

[Text] The third generation of CPC collective leadership was born at a critical juncture in the late 1980's when earthshaking changes were taking place in the world and a breathtaking political struggle was raging in China. This major historic event marked the entry of the CPC into a new historical stage in the furthering and development of Mao Zedong Thought.

I

Understanding derives from practice but also guides practice. Real-life struggles depend on theory but also drive the development of theory. From its very birth, the third generation of CPC collective leadership was faced with a string of burning issues in real life and has taken up the daunting task of reflecting on the past and contemplating the future. All this requires that members of the collective leadership be guided by correct theory. They are duty-bound to take up the historic mission of continuing, defending, and developing Marxism, to use Marxism-Leninism and Mao Zedong Thought to answer the issues raised in the struggle in real life, to meet the challenges posed by domestic and international reactionary forces to socialism and communism, to turn order out of chaos, to clear up befuddled thinking, to dispel confusion, and to clarify the direction of the development of the cause of socialism in China. All this determines that the third generation of CPC collective leadership abide by and develop Mao Zedong Thought in a way that is unequivocally class-, action-, and struggle-oriented and is important for our times.

We need to point out that when the third generation of CPC collective leadership was born, Deng Xiaoping, the core of the second generation, was in good health. Despite his good health, he voluntarily turned over the reins of power to Jiang Zemin. In so doing, he not only effected a smooth transition from one generation of collective leadership to another and hence an orderly transfer of power, but, even more important, ensured the continuity of the party line, principles, and policies. Since Deng Xiaoping and other members of the older generation of proletarian revolutionaries are still living and in good health, they provide living models to be emulated. This creates a favorable set of conditions for the adherence and development by the third generation of collective leadership of an important part of Mao Zedong Thought, namely the theory and practice of Deng Xiaoping. Jiang Zemin made this quite clear when he addressed the Fifth Plenary Session of the 13th CPC Central Committee: "Comrades on the Standing Committee and Politburo of the CPC Central Committee

must take the lead in studying Comrade Deng Xiaoping's works and learn from his rich experience, noble character, revolutionary boldness, and communist spirit." Direct continuity. This is yet another outstanding characteristic and strength of the new generation of collective leadership as it adheres to and develops Mao Zedong Thought.

II

The CPC's third generation of collective leadership, centered on Jiang Zemin, has done highly effective work in a short one-year period. The collective leadership has firmly integrated the universal truths of Marxism with the concrete reality in China, explored courageously, and made a series of theoretical expositions and summations regarding the new issues raised in socialist revolution and construction.

1. Upholding "One Center, Two Basic Points." The third generation of collective leadership has declared in no uncertain terms that it would execute the basic line laid down by the 13th National Party Congress, which can be summarized as "one center, two basic points." In view of the new circumstances, it has also pointed out that, "in reality, there are two diametrically different opinions on the question of reform and the open policy. One opinion is consistently advocated by the CPC Central Committee and Comrade Deng Xiaoping: Reform and the open policy should adhere to the socialist road, to democratic dictatorship by the people, to CPC leadership, to Marxism-Leninism, and to Mao Zedong Thought. This kind of reform is actually the self-improvement of socialism. The other opinion insists on bourgeois liberalization. These people demand that China go in for "wholesale Westernization" and break with the four cardinal principles. The true nature of this so-called "reform and openness" is going capitalist and drawing China into the Western capitalist system. We must distinguish between them fundamentally. These days the sharp contrast between the four cardinal principles and bourgeois liberalization to a large extent boils down to whether or not we should stick to the socialist direction. (Jiang Zemin, "Address to the Meeting Celebrating the 40th Anniversary of the Founding of the PRC," p. 11, separate edition.) This important exposition stresses the linkage between adhering to the four cardinal principles, on the one hand, and adhering to reform and the open policy, on the other. The two are interdependent and supplementary, indispensable to each other. It points out the principal erroneous tendency in handling the relations between the two and attacks the mistaken viewpoints in society and the theoretical community, such as the "theory of mutual contradiction" and the "theory of emphasizing them in turns," exposes the nature and tricks of people engaged in bourgeois liberalization, and makes it clear that the proper direction to advance reform and the open policy is to deepen one's understanding of Deng Xiaoping's thought on reform and the open policy and the basic line of the 13th National Party Congress.

2. Adhering to the Nation's Economic Development Strategy. The third generation of CPC collective leadership, centered on Jiang Zemin, has said clearly it will adhere to the development strategy put forward by Deng Xiaoping—achieving socialist modernization in three steps. In so doing, the collective leadership is “neither impatient for success nor taking a do-nothing strategy.” Instead, the strategy is in line with China's realities and achievable with hard work. (Ibid., p. 12.) Furthermore, population and the ecological environment are selected as the focuses of the strategy and are made part of the entire process of achieving our strategic goals. This kind of thinking has enriched our understanding of the nation's economic development strategy.

3. Persevering in Economic Structural Reform. Economic issues are a priority for the new collective leadership. Proceeding from realities, it has put forward many principles and policies to solve China's economic problems and has done painstaking research into economic structural reform. For instance, no longer is it calling for “the state regulating the market and the market guiding enterprises.” Instead, it has now clearly set forth the principle of “organic integration between the planned economy and market regulation.” On the issue of public ownership and the development of multiple economic forms, the new collective leadership has said that it would make the most of large and midsized state-owned enterprises as the main players and vigorously develop the nonpublic economy within the limits allowed by the state. By further elaborating the party's principles, policies, and measures on this matter, it has made clear that there would be no economic privatization in China. Another example has to do with the current problems in social distribution. The new generation of collective leadership has inherited and refined Mao Zedong's thinking on reconciling the interests of the state, collective, and individual. Even as it continues to use a variety of distribution methods dominated by distribution according to work, it has taken a string of measures to prevent and correct inequality in social distribution. In the interests of the long-term strategy of China's modernization and in light of the gross irrationalities in the existing industrial structure, it has said that China should strengthen basic industries, adjust the industrial structure, work hard to intensify the staying power of economic and social development, and overcome such short-term behavior as the pursuit of superficial prosperity. The inherent ties between basic industries, the industrial structure, and social economic development have been scientifically expounded.

4. Adhering to Socialist Democracy and Legal Construction. The collective leadership centered on Jiang Zemin has declared forthrightly that “building an advanced socialist democracy and a comprehensive socialist legal system is a major goal of China's socialist modernization.” (Ibid., p. 18.) At the heart of socialist democracy is “the people being in charge, constructing and running their own country under the leadership of the CPC.” (Jiang Zemin, “Patriotism and the Mission of China's

Intellectuals.”) “Democratic legal construction must proceed from China's reality and advance step by step in an orderly way under good leadership in the direction of socialism.” “The boundary between socialist democracy and capitalist democracy must be drawn clearly. The boundary between socialist democracy, ultra-democratization, and anarchism must be drawn clearly.” “People's democracy is closely related to dictatorship against hostile elements and antisocialist elements. As long as class struggle exists to a certain extent, the functions of dictatorship cannot be undermined. (Ibid., p. 19, 20.) These brilliant expositions have powerfully silenced the clamor for so-called elite politics, political pluralism, and multiparty rule, further clarifying the direction that China's socialist democratic construction should take, and they have adhered to and furthered the Marxist scientific thesis on the relationship between democracy and dictatorship, between democracy and the legal system.

5. Continuing the Construction of the Socialist Spiritual Civilization. Since the Third Plenary Session of the 11th CPC Central Committee, our party has reviewed the experience and lessons of socialist revolution and construction and put forward the principle of tackling the construction of the material civilization and that of the spiritual civilization at the same time. This is a refinement of Marxism. In recent years, however, there has been a notable lack of attention to the construction of the spiritual civilization. Zeroing in on this situation, the third generation of collective leadership has come up with new definitions of the major matters of principle involved in the construction of a spiritual civilization. Essentially, we should correctly assess the class struggle in the field of ideology at present and enhance our understanding and consciousness of tackling both civilizations at the same time. We should make moral education the most important part of school education and intensify in a big way ideological and political work for young students as well as their education in patriotism, collectivism, socialism, self-reliance, arduous struggle, and the revolutionary tradition. We should use Marxism and socialism to guide the work of the theoretical, propaganda, education, press, publishing, artistic, and literary departments; take over ideological and cultural bases and the media; and enrich the spiritual and cultural lives of the masses. We should correctly handle China's historical culture and foreign culture and resist national nihilism and worshiping and having blind faith in things foreign. These expositions and a string of practical measures have expedited construction of the two civilizations.

6. Correctly Interpret Class Relations in the New Era. The new collective leadership has reiterated “relying on the proletariat wholeheartedly.” This fundamental principle in Mao Zedong Thought “is determined by the very nature of our party and nation.” (ibid., p. 21.) It has stressed that the leadership of the proletariat must be strengthened, the proletariat-peasantry alliance must be solidified, and unity among the entire population must

be enhanced. It has pointed out that attempts to create a so-called "middle class," in effect, a bourgeoisie, in China are motivated by a desire to build an economic base for people engaged in bourgeois liberalization, to change socialism, and to introduce capitalism.

7. Persevering With Party Construction. Party construction has been badly undermined in recent years. There has been extensive ideological confusion and organizational laxity within the party, which has also drifted away from the masses. This is why, as soon as it took office, the third generation of collective leadership has taken various steps to grapple with party construction, reestablish the flesh-and-blood relations between the party and the masses, and revitalize the party's cohesive force and fighting power. Among the principal measures are these: firmly rooting out corruption, pushing for honesty in government, working hard to win the trust of the people, stepping up ideological construction, launching a concerted ideological struggle within the party, resisting bourgeois liberalization, and putting an end to the ideological and moral confusion in the party, abiding by the party's principle of democratic centralism, perfecting the supervisory system inside and outside the party, and stirring up a new wave of enthusiasm to learn Marxism, especially Marxist philosophy.

Apart from the seven areas mentioned above, the collective leadership, centered on Jiang Zemin, has made brilliant expositions on diplomatic work, united front work, defense and military building, science and technology, cultural, and artistic work, nationalities work, Overseas Chinese affairs, trade union work, the Communist Youth League, and the women's federation. All this has greatly enriched the entire party's understanding.

III

A key reason why the third generation of CPC collective leadership has been able to make fresh contributions to the treasure-trove of Mao Zedong Thought is that it adheres to and continues the party's fine tradition and ways advocated by Mao Zedong: combining theory with practice, maintaining close ties to the masses, and self-criticism (*Selected Works of Mao Zedong*, Volume 3, p. 994.) as strikingly demonstrated in these areas:

First, take pains to pool the wisdom of the entire party and the masses outside the party. In formulating principles and policies, the leadership has followed the basic work line of "from the masses, to the masses," thereby putting the party line, principles, and policies on a solid mass base and successfully avoiding subjectivism and one-sidedness.

Second, the third generation of collective leadership consists of conscientious students. Even as they push the entire nation and entire party to learn Marxist theory, they also study on their own. They set an example in studying for the whole nation and whole party, stressing both theoretical studies and learning from practice, learning new knowledge. Jiang Zemin told the Fifth Plenary Session of the 13th CPC Central Committee of

his desire to study hard after becoming chairman of the Central Military Commission. He said, "I must study military affairs industriously and familiarize myself with the conditions in the military services without delay and fulfill my responsibilities diligently and in earnest." This readiness to learn is precisely an important condition for the adherence by the new leadership to Mao Zedong Thought.

Third, the style of going beneath the surface in search of facts. Going deep into reality and taking pains to research and investigate is the way of the new collective leadership. In the one year or so since he became secretary general, for instance, Jiang Zemin has visited a dozen provinces, municipalities, and autonomous regions to study and observe. He has visited numerous factories, villages, military camps, and schools and has had extensive contacts with workers, peasants, intellectuals, officers and men of the People's Liberation Army, and visitors, both domestic and foreign. He has even traveled to the oldest stockaded villages in Jinuo Shan in a remote part of Yunnan to visit the Jinuo nationality, one of the smallest in the nation. Pragmatism is a notable characteristic of the new generation of collective leadership. They have furthered the party's fine tradition of stressing reality, eschewing idle talk, and getting things done for the people, performing one good deed after another to promote political, economic, and social stability, thereby making themselves highly popular among the people.

Fourth, fine personal qualities. Most members of the new leadership are highly educated and fairly learned. Most have solid practical experience, having held leadership positions from the grassroots to the national level, and they enjoy high prestige among the masses. In good health and full of energy, they are capable of working effectively. Jiang Zemin, for instance, is well-educated, speaks several languages, and is highly accomplished artistically. He has held a string of leadership jobs, technical, administrative, and party, from the grassroots to the central level. Fine personal qualities are what the new generation of collective leadership needs to adhere to and develop Mao Zedong Thought.

To be sure, it has been just a little over a year since the third generation of CPC collective leadership, centered on Jiang Zemin, was born. Their theoretical contributions have not been put through the test of practice long enough. As historical materialists, we should not be too demanding in this regard. However, it should be said that the ship steered by the third generation of collective leadership has weighed anchor, the sail has been hoisted, and the course is clear. We are fully confident that this ship will reach the other shore. During this great voyage, the helmsman and the sailors will write a new chapter of victory over terrifying waves and stormy sea. About that we are also confident.

Deng's Contribution to Mao's Socialist Theory

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YANJIU [STUDIES IN MAO ZEDONG THOUGHT]
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[Article by Tu Chengxian (1458 2110 0341), Hangzhou University; Zhang Guoxin (1728 0948 2450), editor: "Deng Xiaoping's Inheritance and Development of Mao Zedong's Socialist Theory." This journal is sponsored by the Sichuan Provincial Academy of Social Sciences and the Sichuan Provincial CPC Committee, Party History Research Office]

[Text] Exploring the way to develop Chinese socialism is a great creative endeavor. In the mid-1950's, after transformation to socialism of the ownership system of the means of production was essentially completed, Mao Zedong led the whole party and all of the people on the Chinese mainland in setting about to develop socialism. He proposed exploring a way to develop a Chinese-style socialism. Later, in the first stage of reviewing our practical experiences in developing socialism, he proposed a basic theoretical framework for developing socialism in China and led China to great achievements in developing socialism. At the same time, some mistakes also occurred. Deng Xiaoping inherited, developed, and enriched the main points and the basic framework of Mao Zedong's theory of socialist development and proposed a total theoretical system for developing socialism with Chinese characteristics.

I. Recognizing National Conditions

Practical proof, whether in revolution or development, and correct analysis of national conditions are always the bases for our proposing theories and formulating lines and general and specific policies. When we divorce ourselves from national conditions and indiscriminately copy certain experiences and models, we have never succeeded. So, when Deng Xiaoping proposed a theoretical system for developing socialism with Chinese characteristics, he laid special stress on recognizing China's national conditions.

First, Deng Xiaoping clarified the economic and natural aspects of China's national conditions, "One is a poor foundation... The second is a large population with little cultivated land." (*Selected Works of Deng Xiaoping*, p. 149.) These are two important factors that we must always consider in socialist modernization.

Second, he clarified the historical aspect of China's national conditions. He pointed out that the semicolonial, semifeudal society provided Chinese socialism with a very weak economic foundation. Moreover, Chinese society did not pass through the fully developed consumer economy development of the capitalist stage, and socialization of production and commercialization and modernization are quite low. So, in the socialist stage, China must not only accomplish the industrialization, socialization of production, and commercialization that are normally accomplished under the capitalist system,

but it also must accomplish the tasks left over from the transition period and eliminate negative historical and traditional influences, a very formidable task.

Third, he clarified China's national conditions from the perspective of the nature of present society. He believed that we have already established a socialist system, but it is not sufficiently perfected and still is in the initial stage. Specifically, industrial modernization still has not been accomplished; agriculture essentially remains at the manual production stage and an excess agricultural labor force of upwards of 100 million still needs to be transferred; the task of modernizing science and technology is quite formidable; the adult illiteracy rate is still rather high; people's livelihood still has not been enriched; productive relations have still not been perfected; and the superstructure is not mature.

Finally, he clarified China's national conditions from China's position in the present international sphere. More than once he has emphasized that China is still a developing country.

Thus, Deng Xiaoping, while totally affirming China's favorable conditions, fully analyzed the unfavorable factors and the great difficulty for China to accomplish the socialist four modernizations and catch up to advanced world standards, and thereby came to a thorough and profound understanding of China's national conditions.

II. On the Central Task of the Entire Party

Having clarified national conditions, he recognized that the object of ascertaining the national conditions was to determine the central task of the entire party.

Early in the initial stage of the founding of the country and especially after the socialist transformation had been essentially completed, Mao Zedong time and again indicated that the focus of the work of the entire party should be shifted to the economy and the technological revolution. Certainly, for various reasons, Mao Zedong did not steadfastly persist in making the economy the focus.

Deng Xiaoping inherited Mao Zedong Thought and brought it into full play. On the basis of correctly recognizing national conditions, he stressed reversing aspects unfavorable to national conditions and developing aspects favorable to national conditions. This concentration reflected the shift in the focus of party work to modernization. Deng Xiaoping pointed out, "Our productive forces are very poorly developed and are far from being able to satisfy the demands of the people and the nation. This is an important contradiction in our present period. Resolving this important contradiction is our central task." (*Selected Works of Deng Xiaoping*, p. 168.)

He repeatedly explained that the primary task of socialism is to develop the productive forces. If we do not develop productive forces and improve people's

living standards, we cannot give expression to the superiority of the socialist system and we cannot conform to the demands of socialism itself, not to mention preparing the conditions for communism. He seized upon the fact that we have not consistently paid attention to the key issue of developing the productive forces since the founding of the country, and emphatically pointed out, "Our political line is to focus on the four modernizations, persist in developing the productive forces, and never let go of this basic link unless we are fighting a world war. Even if we fight a world war, when the fighting is over, we still will rebuild." (*Building Socialism With Chinese Characteristics*, revised and enlarged edition, p. 54.)

What Deng Xiaoping expounded above reflects our party's profound understanding of the principal contradictions in Chinese socialism and our basic national conditions. Joining theory with practice to correct the partial understanding of national conditions that we have had for a long time not only restored the correct thesis of the Eighth National Party Congress regarding shifting the focus, but also greatly enriched and developed this correct thinking.

Deng Xiaoping also inherited and developed Mao Zedong Thought by proposing the two-step goal of actively, reliably, and deliberately developing China's national economy. He portrays beautiful prospects for Chinese socialist development.

III. Concerning Basic Contradictions in Society

With the goals set, where do we begin and how do we realize them?

Mao Zedong correctly proposed the new concept of basic contradictions in socialist society for this. He said, "In a socialist society the basic contradictions still are the contradiction between productive relations and productive forces and the contradiction between the superstructure and the economic base." He also said, "Socialist productive relations have already been established. They are adapted to the development of productive forces. But, they still are very imperfect and these imperfect aspects are in mutual contradiction with the development of productive forces. In addition to the mutual adaptability and mutual contradiction of productive relations and the development of productive forces, the superstructure and the economic base also are mutually adaptable and mutually contradictory." (*Selected Works of Mao Zedong*, Volume 5, pp. 373-374.) For this reason, we must persist on the socialist road and reform certain things that do not fit the concrete socialist system. Later, in practice he certainly did not completely adhere to this correct thinking.

Deng Xiaoping inherited and developed Mao Zedong's theory on the basic contradictions in socialist society, and, on the basis of "the mutual adaptability and mutual contradictions" between productive relations and productive forces and between the superstructure and the economic base in socialist society, proposed the two

fundamental points of adhering to the four cardinal principles and persisting in reform and opening up.

Deng Xiaoping strongly emphasized adhering to the four cardinal principles and opposing bourgeois liberalization, and pointed out that the four cardinal principles are the foundation of the nation. He said that if we do not adhere to the four cardinal principles, the Chinese revolution cannot succeed and modernization has no hope, and correcting "leftist" mistakes can "correct" Marxism-Leninism and "correct" socialism. He often called everyone's attention to the fact that there is a name for the four modernizations that we are accomplishing. It is a socialist four modernizations and we must steadfastly adhere to this socialist orientation. At the same time, Deng Xiaoping profoundly analyzed the true nature and the danger of bourgeois liberalization and pointed out that to practice bourgeois liberalization is to take the capitalist road. Allowing bourgeois liberal thinking to run rampant could destroy the stable and united political situation, and "no development could be accomplished." (*Building Socialism With Chinese Characteristics*, revised and enlarged edition, p. 111.) He has appealed to the whole party to boldly and assuredly adhere to the four cardinal principles and take a clear-cut stand against bourgeois liberalization.

Deng Xiaoping also attached a great deal of importance to reform and opening up. He pointed out that reform and opening up are the way to strengthen the country. He said, "We have determined to accomplish two openings, one an external opening and the other an internal opening." (*Building Socialism With Chinese Characteristics*, revised and enlarged edition, p. 105.) He believed that today's world is an open world and China cannot separate itself from relations with all the nations of the world and develop independently. One of the main reasons that China was stagnant and backward for a long time is because we closed the country to international intercourse. Our own experience also proves that closing up to develop does not work. Only by practicing a policy of opening up to the outside world do we enhance international exchanges and cooperation and introduce the funds, experience, and scientific and technological achievements of developed countries, and only then can we realize our goals for economic development. And, "internal opening up is reform." (*Ibid.*) Deng Xiaoping pointed out, "Reform is self-improvement of the socialist system. Within a definite scope a certain amount of revolutionary change takes place. This is a major event. It signifies that we have already begun to find a way to develop socialism with Chinese characteristics." (*Ibid.*, p. 121.) Our reform is comprehensive; not only the economic sphere must be reformed, but also such areas as politics, education, and science and technology. This is required to resolve the basic contradictions in socialist society. In this respect Deng Xiaoping not only proposed comprehensive ideological reform, but also established the basic principles for reform of the economic system and designed a blueprint for reform of the political system.

Here it is especially worth mentioning that, beginning from the actual level of development of China's productive forces, Deng Xiaoping pointed out that China's modernization is "a great revolution to fundamentally change the face of China's backward economy and technology and further consolidate the dictatorship of the proletariat. This revolution must greatly change the present backward productive forces, which will necessarily change productive relations in many respects." (*Selected Works of Deng Xiaoping*, pp. 125-126.) He believed that, based on the principle that productive relations adapt to the nature of productive forces, we must establish a multilayered and varied concrete form of productive relations. Since the Third Plenary Session of the 11th Party Central Committee, we have made great adjustments in the ownership system. Based on the premise that the socialist public ownership system occupies absolute predominance, the urban and rural individual economies which act as a necessary supplement to the socialist economy have developed greatly. Besides the three forms of state-operated, collective, and individual enterprises, various types of joint and Sino-foreign ventures, and joint-venture enterprises and wholly foreign-owned enterprises have appeared, and several special economic zones have been established along the coast. These all greatly advance the development and the prosperity of China's urban and rural economies.

IV. Concerning the Two Different Types of Contradictions

In the mid-1950's, the international communist movement suffered reverses. Various types of contradictions in socialist countries were rather fully exposed. The communist parties of various nations were faced with the serious task of correctly recognizing and dealing with these contradictions. Under these circumstances, Mao Zedong reviewed domestic and foreign experiences of socialist revolution and development and explicitly proposed the theory on the two kinds of contradictions.

Mao Zedong divided the contradictions in socialist society into two types of completely different nature: contradictions between ourselves and the enemy and contradictions among the people. Providing for the correct handling of contradictions among the people is the theme of a socialist nation's political life. He maintained that in resolving all ideological issues and all disputes among the people we can use only democratic means; we can use only discussion, criticism, and persuasion and education to resolve them; and we cannot use coercive or forceful means to resolve them. He stressed that for democracy and dictatorship, democracy is combined with centralism and dictatorship is only applicable to the enemy and is not applicable among the people. In addition, Mao Zedong always paid a great deal of attention to ideological and political work and attached importance to developing education, science, and culture.

Deng Xiaoping inherited and developed Mao Zedong's correct theory on the two types of contradictions, corrected past mistakes, and proposed the task of perfecting socialist democracy and strengthening the socialist legal system.

To arouse the enthusiasm of the intellectuals and develop science and technology, education, and culture, Deng Xiaoping demonstrated that science and technology is a productive force, education is a foundation, and intellectuals are workers and part of the working class; and he raised science and technology to a high plane critical to modernization. Therefore, he proposed that we should respect knowledge and respect intellectuals and attach importance to science and technology and education.

Deng Xiaoping also strongly emphasized developing the spiritual civilization so that the material civilization may be smoothly developed. He pointed out, "If we do not strengthen spiritual civilization, the material civilization also will be destroyed." (*Building Socialism With Chinese Characteristics*, revised and enlarged edition, p. 123.) He believed that the spiritual civilization is an essential characteristic of socialist society, its "most basic nature is to cause a vast number of people to have communist ideals, to have morality, to have culture, and to observe discipline." (*Ibid.*, p. 15.)

Here we should especially point out that Deng Xiaoping in the new historical period proposed the concept and the theory of "one country, two systems" to resolve the Hong Kong, Macao, and Taiwan problems, and brought another new development to Mao Zedong's theory on the correct handling of contradictions among the people. Implementing "one country, two systems" changed the connotation and the extension of the concept of "people." One need only have deep love for the motherland and endorse the unity of the motherland to be part of the people. "One country, two systems" includes two different social system in the contradictions among the people and changes the structure and the content of contradictions among the people. It adds the contradiction of "one country" and "two systems," the contradiction between two systems, and such contradictions as those between the mainland's various classes, social strata, and social groups and Taiwan, Hong Kong, and Macao's various classes, social strata, and social groups to the mainland's original contradictions among the people. In handling the class contradictions above, we certainly cannot bring up again the past slogan of "taking class struggle as the key link." This raises the use of legal means to resolve contradictions among the people to a new high plane.

In summation, after the 1950's and 1960's when the socialist transformation was essentially complete, our party and Mao Zedong truly explored the way to develop a Chinese style of socialism and proposed some principles and policies to reform and perfect the socialist system in accordance with the understanding of Chinese national conditions and the grasp of objective economic

laws of that time to promote the development of Chinese socialism and achieve some successes. Since the Third Plenary Session of the 11th Party Central Committee, Deng Xiaoping has abided by the universal truth of Marxism-Leninism and China's actual socialist development, the principle of combining Chinese national conditions and objective economic laws, to propose a fundamental theory of developing socialism with Chinese characteristics and the basic line for the initial stage of socialism of "one center" and "two basic points" to enrich and develop Mao Zedong Thought. It was proposed in total accord with the fundamental tenets of Mao Zedong Thought, while correcting some past theoretical and practical mistakes and resolving issues that could not be resolved in the past.

Jiangsu Views Cadre Problems, Strategy

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[Article by Ding Hanyun (0002 3352 0061), Ou Shumin (2962 6473 3046), and He Peishu (0149 1014 2885): "Cadre Rotation Problems and Their Solution"]

[Text] Cadre rotations are important in the training and tempering of cadres, and they are also an effective way to enhance the building of the cadre corps and leadership teams. However, problems in the rotation of cadres are fairly conspicuous today and require earnest efforts for solution.

Problems Faced in Cadre Rotations

By cadre rotation is meant an organizational change in the work location or the job assignment of leading cadres at a certain level, within certain limits, and in a planned and goal-oriented way. This is one of the main ways of transferring cadres to change their subordination relationships.

In recent years, all jurisdictions have effected rotations in conjunction with the readjustment of leadership teams and changes in assignment periods, with emphasis on county-level leading cadres and some city- (or department-) level cadres. Some jurisdictions have also rotated grassroots leading cadres. However, many difficulties have been encountered in cadre rotations, mostly in the following regards: 1) a fairly serious situation of "inability to transfer people out or bring people in"; 2) shortcomings in the cadre management system, which makes for fairly narrow rotation limits; and 3) "ease of upward rotations, but difficulty in downward rotations; and ease in rotations to cities, but difficulty in rotations to the countryside." The difficulty in rotating cadres has led to local people "becoming mandarins" in their local areas, or people from outside a place working there for too long, with attendant abuses.

First is a proneness to the formation of intricate relationship networks. When cadres remain in one place for a long time, they form deeprooted relationships. Under such circumstances, some cadres who once showed

promise become locked into these relationship networks and are unable to extricate themselves from them. For example, two principal leaders in a certain department of a county agency became involved with the marriages of their children, forming cliques in the assignment of cadres. The public said, "The leaders form cliques together, choosing members of their own families." This both hurt the work and damaged relations between the party and the masses and between cadres and the masses.

Second is proneness to develop narrow local loyalties. In some places, most of the leading cadres are local people who are not very willing to accept cadres sent there from elsewhere on rotation. They also regard rotational cadres differently, refusing to support them in their work. Some cadres in a certain county who did not understand why someone had been sent from elsewhere to be the county CPC Committee secretary said, "Can't our own county produce a county CPC Committee secretary?"

Third is the bad effect on training and tempering. Because of their long stay in one place, some cadres who were of pretty good quality and capability to begin with became so familiar with people and their jobs that they settled into the status quo, remaining in the same old rut and becoming prone to bureaucratism and subjectivism. Some of them even became parochially arrogant, developed a very narrow perspective, and became lax about attending to their work and moving ahead.

Therefore, so long as relative continuity is maintained in leadership teams, the planned rotation of leadership cadres in stages and in groups is extremely necessary.

Reasons for Difficulties

Many reasons account for the difficulties in rotating cadres:

1. The importance of rotating cadres is not sufficiently understood. Some comrades suppose that it makes no difference whether cadres are rotated or not when they remain in one place for a long time, are familiar with the people and the area, and do their work well. Some comrades have a bad case of localism and selfish departmentalism. They do not want to rotate outstanding cadres out of their area, nor do they want to accept the rotation into the area of cadres from elsewhere. Furthermore, some people have mistaken notions about rotated cadres. They suppose that the only cadres to be rotated are those who do not do a good job or who make mistakes; outstanding cadres do not get rotated. These ideas reflect some cadres' insufficient understanding of the importance of rotations, and no doubt they impair the smooth rotation of cadres.

2. The growth of unhealthy ideas such as individualism. Some comrades do not give first place to the party's interests; instead they regard their personal interests as very important. They put personal interests before the party's interests. They seek a life of ease and comfort, being swayed by considerations of gain and loss. They do not want to work in places of hardship. Some are lazy.

They are accustomed to minding the store where they are located. Some become mired in "relationship networks" or factional cliques; they cannot bear to lose the "turf" that they have managed for a long time. Some comrades also constantly emphasize their personal uniqueness in order not to be rotated, or they even ask old cadres or old superiors to put in a word on their behalf, and so on.

3. The party organization does not pay enough attention to cadres' ideological education. It does not enforce strict discipline. In recent years, some places and units have become lax about cadres' ideological education. There is less education in hard work and pioneering. Going into a harsh environment to undergo toughening is less advocated, and subordination of individual interests to overall interests is less emphasized. Conversely, greater accommodation is made to looking after cadres. In some party organizations, because of the various reason that individuals or units give, the decisions are not firmly enforced once a decision is made to rotate cadres. The seriousness of enforcing discipline is thus lost, which abets the abnormal situation in cadre rotation work of "inability to transfer people out, inability to bring people in, and stagnation."

4. The cadre administration system lacks a complete rotation mechanism. China's present cadre administrative system is substantially a rigidly centralized administrative system. Once an organization's personnel department assigns a cadre to a specific unit, the most direct administrative representative is the unit and the department in which the cadre is located. Consequently, rotation of a cadre requires agreement by both the unit in which he is located and the unit that is to accept him or her. Should one of the parties disagree, the cadre cannot be rotated. Such a system of cadre ownership by a unit or a department creates obstacles in the rotation of cadres, and it also provides a climate for cadre "interbreeding." In recent years, units exercising direct vertical control over cadres have become more and more numerous, while the number of local organization personnel units that can centrally transfer cadres to other assignments have become fewer and fewer. As a result, channels for the rotation of cadres have become narrower and narrower. Cadre rotations have not been systematized, and the guiding thought, subjects, scale, and basic procedures for cadre rotation are not too clear. This has hurt the smooth rotation of cadres.

5. The lack of coordination of cadre policies has objectively played a role in limiting cadre rotations. An example is the limitation on those having technical or professional credentials. More than 13,000 members of the Zhenjiang City cadre corp hold intermediate level or better technical credentials. Most of them are outstanding performers in their particular technical positions, and, from among the substantial number of party and government cadres, the best should be selected for use. However, since party and government cadre positions cannot make use of their technical credentials, it is difficult to rotate this body of technical cadres to leading positions in the party and government. During the first

half of 1990, an agency in a certain county sent back to their original unit five cadres rotated to work in institutions because they were unable to work in the agency on jobs for which they held credentials. Another example is the restrictions imposed by differences in wages and benefits among administrative, institutional, and enterprise units. Following the 1985 wage reform, different wage scale and wage differential standards went into effect for government, institutional, and enterprise cadres. Cadre rotation out of a government, institutional, or enterprise unit required that the cadre's wages be rolled back to the 1985 level, and then incorporated into the wage standards in the unit to which a cadre was transferring. With the passage of time, the gap in wages and benefits, as well as in nonwage subsidies among government, institutions, and enterprises, and among different kinds of cadres has become quite wide. Objectively, this has resulted in difficulty in rotating cadres among government, institutional, and enterprise units. A deputy chairman of the people's representative assembly in a certain county was selected for promotion to a job in a county-owned enterprise. This was an important position from a work standpoint, but his actual monthly income would decrease by about 100 yuan.

Problems such as this show up in a whole series of specific issues such as the rotated cadres' household registration, housing, and employment and schooling for dependent children. Unless the cadre can cope with them properly, they are bound to have an adverse effect on cadre rotations.

Solutions for Overcoming Difficulties

Difficulty in cadre rotation is a "syndrome" that has multiple causes. Therefore, the problem can only be solved with a "multiple treatment."

1. More ideological education to raise cadre understanding of the importance of rotations. The rotation of cadres is an important and daunting task. The key to good performance in this task lies in whether the broad masses of cadres fully understand and support it. Practice shows that cadre rotation helps leading cadres receive broader tempering. It widens their horizons, enriches their experience, increases their competence, and improves leadership quality and level. It helps leading cadres rally spirit, transform work style, deepen investigation and study, forge close links with the masses, rid themselves of the encumbrance of various complex relationships, and courageously go all-out in working in situations in which they pretty much stand alone, the better to make use of their own intelligence and competence. It also helps in carrying out the rational readjustment of the structure of leadership teams at all levels to enhance the overall performance of leadership teams for greater team cohesiveness and effectiveness.

During the revolutionary war years and the period immediately following liberation, the broad masses of cadres regularly changed battle stations as the party and the cause of the people required, "going wherever they

were needed and making themselves at home wherever the going was hard." Under the present historical condition of building a distinctively Chinese brand of socialism, cadre rotation is a new test of leading cadres at all levels. Therefore, party organizations at all levels must educate cadres in a full understanding of the importance of cadre rotation, spelling out the historical mission that they shoulder. They must educate them in taking the older generation of revolutionaries as models in carrying forward a revolutionary spirit like that of the revolutionary war years and being willing to serve as a revolutionary "seed," resolutely submitting to the party's decisions, and putting down roots, putting forth buds, blossoming, and bearing fruit wherever the party scatters them.

2. Strict enforcement of organizational discipline to ensure smooth performance of cadre rotation. Party organizations at all levels must be extremely careful in deciding cadre rotations. They must pay full attention to and hear the views of all parties and all comrades concerned. Once they make a decision, they must resolutely carry it out. Rotated cadres must willingly submit to the organization's decision. Comrades who do not submit to decisions are to be disciplined by the organization. Party organizations and leading cadres at all levels must instill a psychology of regarding the whole country as a single chessboard, practice the "five lakes and the four seas" [that is, people from every corner of the land should strive for common goals], enthusiastically welcome comrades from elsewhere who come to work locally, and actively select outstanding cadres to go elsewhere for tempering. Some units and leaders that place undue emphasis on local and departmental interests, do not carry out, feign compliance with, and oppose under various pretexts the decisions of higher authority must be severely criticized or even disciplined as necessary. In cases where cadres rotated from elsewhere are shunned or attacked, the party organization at a higher level must fix responsibility on the parties concerned. In short, there must be strict enforcement of cadre rotation discipline for resolute elimination of all forms of harassment to ensure smooth implementation of cadre rotation work.

3. Perfection of the mechanism to enable a gradual systematization of cadre rotations. The ruling position of the CPC makes adherence to the principle of the party being in charge of cadres mandatory. No matter their vocation or department, all cadres are party cadres and state cadres. The personnel departments in organizations must genuinely buttress macrocontrol of cadre work, resolutely overcoming unit or department ownership of cadres. At the same time, they should gradually rationalize the existing cadre management system. They should particularly study rationalization of the relationship between central management and regional management of cadres. Centrally managed cadres must be an organic and integral part of regionally managed cadres, taking part in the "great cycle" of regional cadre rotations.

4. Active efforts to create conditions to relieve rotational cadres from worries at home. Since existing cadre policies are not yet complete nor sufficiently integrated, cadre rotation may occasion certain real problems and difficulties for the rotated cadres. We believe that problems bearing on the overall situation and problems resulting from policies, such as position titles and wages, cannot be solved by a region or a department. However, party organizations at all levels should use good ideological work as a basis for bending every effort to create a fine work and living environment, and conditions for rotated cadres. By so doing, it is possible to eliminate comrades' worries about problems at home, thereby enabling them to ease their minds to focus their energies on actively doing the work at their new posts.

Socialist Education Stressed in Rural Areas

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17 Jan 91 p 1

[Article by staff commentator: "The Great Matter of Properly Handling Socialist Ideological Education in Rural Areas"]

[Text] In the more than 10 years of opening up and reform, under the leadership of the party, large numbers of peasants and rural party members, as well as grassroots cadres, have been boldly innovative, have exhibited a highly developed sense of being their own masters, and have made contributions in promoting rural reform and developing the overall economy that have attracted worldwide attention. A large group of new kind of peasant has emerged, characterized by the "four haves." This has given rise to a new rural work situation that is full of vitality.

However, because of the influence of the domestic and international "climates," especially the effect of bourgeois liberalist trends of thought, the guiding ideology of "a firm hand and a flexible hand" and some specific rural policies have not been perfect. This has resulted in a situation where both cadres and ordinary people are puzzled by and have doubts about the socialist essence of the party's rural policies in the present stage. Some peasants have only hazy concepts of country, collectives, and socialism. A small number of party members "only look to their own well being, and do not consider the path of the common good," while some even violate both law and discipline and become seriously estranged from the masses. In some locales, feudal, superstitious, and decadent, capitalist thinking is still growing vigorously, and problems of public order are becoming quite pronounced. These problems already seriously affect and restrict rural reforms and economic development, and they impede the social stability of rural areas. For this reason, starting last winter and this spring, efforts were launched by stages and in groups in all rural areas. The efforts focused on such prominent issues as reform and construction, general relations with the masses, and making teaching of socialist ideology the basis for building a spiritual culture. This is a requirement for

adhering to the party's basic line, consolidating rural alliances, progressively strengthening party-peasant relations, strengthening confidence in socialism, inspiring enthusiasm, surmounting difficulties, and properly building socialism with Chinese characteristics. It will be a strategic task for the present and future for a considerable period. Rural party organizations at all levels should increase understanding of the overall situation in order to consolidate socialist political power. They should work conscientiously and achieve results in a solid, down-to-earth manner.

The major tasks in rural educational work in socialist ideology are the following: to thoroughly disseminate the party's basic line, patriotism, collectivism, and socialism, while using socialism to seize rural positions; to thoroughly implement each aspect of the party's general and specific policies in rural areas, and strengthen the building of grassroots organizations, taking the party branch organization as the core; to consistently place ideological education in the leading position, while strengthening organization building; to increase the understanding of large numbers of party members and cadres, unify thinking, and strengthen belief in socialism; to always bear in mind the goal of wholeheartedly serving the people; to improve ideological working style and work methods; to adapt to the needs of building two rural cultures and to the needs of the policies of reform and opening up; to withstand various tests; to firmly and unshakably unite and lead the masses; and to walk the socialist road, where diligent work will lead to prosperity, a common prosperity.

The major content of the education of peasants, party members, and cadres lies in gaining a clear understanding of the socialist essence of the household responsibility system, while fostering a collectivist spirit and maintaining a proper balance in the relationship between the state, the collective, and the individual. The household responsibility system possesses the distinctive attributes of a socialist collective system of ownership: land ownership, rights of distribution, and rights of transference all are held by the collective. In addition to turning over state taxes, peasant households contract to supply specified amounts of grain, with the collective supplying the remaining amount. The peasant household and the collective have a contract and service relationship: the peasant household is obliged to handle irrigation and water conservancy, while bridge repair and road construction is managed by the collective. At present the emphasis is on "perfecting" the household responsibility system, and there is no need to "reform" it. The emphasis is on "developing" the collective economy. This should not be handled by "equalitarianism and the indiscriminate transfer of resources." Rather, we must rely on the collective itself to develop production and accumulation, particularly by engaging in exploitation-type production; setting up, cultivating, supporting, and strengthening various types of enterprises; and expanding the real strength of the collective economy at the village-level. At present, the household responsibility

system still has extensive adaptability and exuberant vitality. As the basic system in rural areas, it has already proven stable for a long period. This point must be repeatedly made clear to the masses and cadres, for it will provide them with long-term, effective reassurance.

The focal points of this education in socialist ideology are rural grassroots cadres, Communist Party members, and young peasants. The educational method is not the same as in the former "socialist education movement." Although it is also necessary to carry out criticism, self-criticism, and positive ideological struggles, there will be no "program of class struggle" and no situation where "everyone must pass the test of socialism." The main thing is to persist in education by positive measures or examples and by self-education, while avoiding past methods which involved punishing grassroots cadres. It is also necessary to strictly master specific policies. Because it is necessary to solve problems—a great many of which concern ideological understanding and ideological contradictions between right and wrong, advancement and backwardness—in the course of education, we can only keep in mind distinguishing right from wrong, raising consciousness, strengthening confidence, and uniting to push forward reform and develop the economy. Therefore it is necessary to consistently educate by positive measures or examples and through self-education. So-called education by positive example must be aimed at the ideological reality of grassroots cadres, party members, and the masses; it must use flexible and varied methods, must be explained to them in a positive manner, and must imbue them with socialist ideas. It must be rational and dependable, convincing people by reason. It must not be the indiscriminate mouthing of slogans. So-called self-education must give ample play to socialist democracy, strengthen many peasants' sense of being their own masters, utilize the method of receiving from the masses and giving to the masses, inspire and guide peasants, clarify ideas, and unify understanding. It must involve the power of example, setting up and publicizing models, using the achievements of advanced units and advanced figures, advising someone or explaining something by using one's own experience as an example, letting those who are learning to feel cherished and confident, and strengthening the convincing power of education.

For rural grassroots cadres and Communist Party members, since the goal of socialist education is also to have something to fall back on, at the same time we properly handle their education, we must boldly rely on them to launch work, have them tempered in the course of practical work, raise their ideological consciousness, and enhance their level of policy understanding. We must insist that theory relate to practice, integrate ideological education with the way the masses do things, let the masses grasp the reasons behind doing things starting from their vital interests, and promote cordial feelings and inspirational power towards the collective and socialism. This is a key link in arousing the enthusiasm of the peasants and maintaining close ties between the

party and the masses, and between cadres and the masses. Thus, in the education process, it is necessary to link the ideological reality of peasants, party members, and cadres, and solve problems of understanding. It is also necessary to link the realities of rural reform and construction, and solve major production or living problems that arise between the masses and cadres. This is done to benefit the consolidation and development of rural reform results based on the household responsibility system. It will be beneficial for further utilizing the enthusiasm of vast numbers of cadres and the masses and for promoting the development of a rural commodity economy. It will also be of benefit in building a culture with a socialist spirit, properly handling family planning and public order, and in promoting social stability. Based on an enhanced ideological understanding, it will be beneficial to establishing a sound system of rules and regulations and consolidating and developing the results of socialist ideological education.

Rural Party Organizations Emphasize Guiding Ideology

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28 Jan 91 p 1

[Article by staff commentator: "Strengthening the Building of Grassroots Organization Requires a Clear Guiding Ideology"]

[Text] Many matters must be handled in order to strengthen rural grassroots organization building, and village-level organization building in particular. The most important matter is the need to first clarify the guiding ideology. This effort must be aimed at strengthening and improving party leadership of rural work, maintaining close ties to the peasant masses, consolidating and developing worker-peasant alliances, guiding the peasants to turn poverty into riches, and walking the socialist line without swerving. It is also necessary to focus firmly on the central idea of building the economy; to closely integrate the deepening of rural reform with the building of two cultures; and to stress the key idea of building party branch organizations. At the same time it is necessary to properly integrate construction of such organizations as rural committees, cooperative economic organizations, the Communist Youth League, the Women's Federation, and the people's militia. Also, under the unified leadership of party organizations, we must make a concerted effort to master public management and foster the joint ability to handle rural work properly.

Party branch organizations are the leading core of rural grassroots organizations. Although such organizations as rural committees, the Communist Youth League, and the people's militia all have an indispensable role, rural party branch organizations are the foundations and cells of the party. The party line and its general and specific policies are implemented and carried out primarily through grassroots organizations and the work of party members among the masses. As long as the building of a

party branch organization is done well at the start, it will be possible to rely on the organization to strengthen the management and education of party members, encourage them, and fully utilize the vanguard model role of party members. Members of leading bodies of rural party branch organizations must maintain close relations with the masses on the broadest scale possible; have the deepest understanding of the pulse and the thinking of the masses; and must be able to reflect the true thinking and requirements of the masses in a timely manner. Thus they will be the embodiment of the party in the eyes of the masses. The manner in which rural party branch organization building is done is directly related to our ability to establish long-lasting flesh-and-blood ties to the masses. It is also related to whether the party has a good or bad image or a high or low confidence level among the masses, and to whether large numbers of people and party members can strengthen their confidence in socialism.

Comprehensively strengthening the ideology, organization, work style, discipline, and system building of party branch organizations requires that we insist on giving top priority to building ideology. There are some backward party branch organizations that fail to exert themselves; they are discordant, not diligent, and dishonest. Because these organizations have relatively many problems and difficulties and rather weak capabilities, when it is time to rectify leading bodies, for a time it is difficult for them to rely on their own capabilities to solve the problems. It is often completely necessary for an organization to step in and adjust things—for high-level party organizations to bring in competent cadres to replenish and strengthen the leadership of backward party branch organizations. However, if organizational rectification is not accompanied by ideological rectification, it is often possible to only "alleviate the symptoms" and not to "cure the cause of the illness." Only by insisting on the constant strengthening of ideological rectification based on organizational rectification will "many change their thinking and a few change their position." Only in this way can we fundamentally increase the quality of party members, especially members of leading bodies of party branch organizations; consolidate and develop the results of organizational rectification; and place backward party branch organizations on a reliable ideological footing, thus "curing the cause of the illness."

Of course, advanced and backward are relative terms. Backward party branch organizations also have potential, potential that must be tapped and sustained, and positive factors and healthy forces that must be supported. It is difficult to bring out and tap the internal positive factors and healthy forces in some backward party branch organizations if no outside force is at work. External causes are prerequisites for change, while internal causes are the foundations for change; external causes must function through internal ones. Looking at things from a long-term perspective, it is necessary to truly and fundamentally solve problems and actively

support and mobilize the positive factors within backward party branch organizations so that they progressively mature into functioning, useful forces. Thus they will be able, over a long period, to sustain efforts to increase the embodying power and combat effectiveness of backward party branch organizations.

The key to properly building leading bodies of party branch organizations is selecting and fostering an honest, impartial, vigorous, and competent party member to serve as secretary of the party branch organization. For some time a few backward party branch organizations have not elected ideal party branch secretaries. There are even situations where the branch organization has members who "take turns running things" as party branch secretary; they are still unable to reform their poor and backward situation. The causes here are undoubtedly very complex, but the major reason is that they have paid no attention to teaching and raising the quality of party members and cadres' political ideology or their ability to do practical work. Thus, it is necessary to constantly strengthen the training of party members and comprehensively raise their quality while conscientiously investigating the selection of branch secretaries, and holding fast to the principal of choosing an impartial and competent individual with both ability and political integrity. We cannot talk only about "ability" and neglect "political integrity." As far as serving as party branch secretary, if "the spirit is willing but the flesh is weak," it will be difficult for a new situation to unfold. However, if we only look at the superficial "competence" and overlook "impartiality," and do not perfectly understand the quality of someone's political thinking, then at a crucial moment, the person will be unable to stand up to various difficult tests and hold firmly to a socialist orientation. He will be unable to lead the masses resolutely down the path of common prosperity, and will even go astray. This could be very damaging and dangerous to the party and the people. This type of lesson is a common occurrence. In investigating and selecting a party branch organization secretary, it is necessary to first look at whether he is building a party that serves the public interest or one that serves his private interests. An extremely selfish person cannot serve as secretary for a branch organization. Of course, there are also branch organization secretaries who, at the time of their election, are well-suited for the position in many ways, but who gradually change later because that they consider promotion important and take education lightly. They can commit serious errors or even become morally degenerate. These situations illustrate that selecting a good branch organization secretary cannot be a matter that stands for all time, where afterwards one sits back and relaxes. It also necessary to constantly train and educate them, increase their understanding of ideological policies and management, strengthen their ability to handle work with the masses and to solve problems, and do everything possible to help them eliminate their troubles back at home. It is also necessary to encourage their enthusiasm from a spiritual point of view, create a good environment for them in terms of social opinion,

and support them as they boldly take charge of independent work in order to make a greater contribution to the construction of socialism in new rural areas.

Letter Criticizes Overseas Students

91CM0203A Beijing DAXUESHENG [UNIVERSITY STUDENTS] in Chinese No 12, 10 Dec 90 pp 34-37

[Article by Bei Ye Yi Zhi (0554 6851 0001 1807); chief editor, Jiang Yanhua (3068 5333 5478): "Singing a Different Tune—A Letter to Self-Supporting Overseas Chinese Students"]

[Text] In its July 1990 issue, DAXUESHENG [UNIVERSITY STUDENTS] published the article "Australia—Tears of Self-Supporting Overseas Chinese Students," which aroused universal concern. Whether in praise or condemnation, all expressed their earnest feelings. We now choose an article that is representative in nature, and hope that it will generate interest among our readers.

Fellow Students:

You have suffered and cried. However, you groan and complain blindly. Many of those who cried were men. I must say: cowards, good-for-nothings!

We are accustomed to satirizing the present situation in China, saying "women are stronger than men." To what extent are "women stronger than men"? I see the so-called strength of women as being the bad habit, formed over many years, of chattering and secretly grumbling, while taking little action and offering belated advice. Or perhaps it is like an ignorant old woman who has reached menopause; she forgets what she is doing and accomplishes nothing. She sits down and blames God and man. The so-called weakness of men is our lack of that indomitable, heroic spirit of man! Let us ask ourselves, aside from suffering, failing, blaming, and complaining, where have our actions gone? Where has our fortitude and steadfastness gone? Where has our reason gone? Fellow students, you may ask yourselves the same questions.

Who made you go faraway to foreign countries? It was yourselves. Nobody forced you to do this. You willingly left a place that you considered unsuited to you and went looking for your own paradise. That was entirely your own business. I hope that all people in the world have the freedom to choose their own places to live and their own lifestyles. However, this is only my personal view. What I want to make clear is this: To be a real man, if you have chosen your own path in life, then you must bravely shoulder your responsibilities, do not complain, and move forward. However, if you have not quite become a real man, yet you want to take risks on a new life, then you have only yourself to blame if you drown. It is just like if you went to the shore, knowing you could not swim; others tell you not to swim in the deep ocean, but you refuse to listen. What can others do? If somebody tricks you, saying there is a paradise somewhere, and you go, then that demonstrates that you are a stupid and

hopeless person. In any case, the path you walk is your own, and you must be responsible for yourself. This is no one else's business. Based on this, we despise those weak people who always complain about their lives.

In fact, what hardships are you suffering? Let us look at the article entitled "Tears of Self-supporting Overseas Chinese Students" that Mr. Li Wei wrote to DAXUESHENG, an article he claimed was a "news story." How was it written? In that article, it was reported that self-supporting overseas Chinese students were "suffering abroad," "experiencing inhumane life," "shouldering a heavy financial burden, and enduring spiritual pressure with fear and trepidation." Besides these hollow adjectives which horrify people, let us scan the whole article to find out just what scenes are terrible. First of all, inhumane life. Mr. Li mentioned a former Vietnamese refugee who ironed non-stop for 10 hours; his wages were 3.5 dollars per hour (it is unclear whether the currency is renminbi or Australian dollars). He considered this inhumane work. Where did he obtain his concept of inhumanity? First, he compared his income with that of local Australians. The Australians made \$10 or so an hour. In addition, we realize from that frank article that formerly Mr. Li had been "a person of influence." He was a special correspondent for a certain major newspaper, used to interview important people at the department level, and was assigned a car for his own use. Looking at him, one has the impression that he was an "aristocrat." It is hard to understand what kind of force caused him to give up his special privileges and jump into the bitter sea. However, after he jumped, he could not let go of his "aristocratic" airs, and in his mind he despised "hard labor." That is why he sighed from the bottom of his heart about this "inhumane" suffering. Fellow students, let us look inside deeply ourselves: If, in the end, our education trains us to be nothing, and we actually are spiritual aristocrats who despise labor, then what hope is there for our society? I once entertained a tour group from Australia. One of the group members shook hands with me, saying very naturally, "My name is Toby, I'm a janitor." I have often thought, would our janitors' union introduce themselves thusly? We have always praised laborers to the skies, and have treated labor as a sacred right. However, when cadres make mistakes they are dispatched to workshops to labor. If urban dwellers make mistakes that are not serious enough to merit sentencing, they are sent to the countryside and "reformed through labor." This virtually treats labor, particularly physical labor, as a punishment. In this case, how can our philosophy gain a foothold? How do laborers view themselves?

Mr. Li said that the most miserable day he had was when he had only \$7 in his pocket. What did my friend, Mr. Jiang Nan [3068 0589], now deceased, say? Jiang, author of *Biography of Jiang Jingguo*, said that he arrived in the United States with only one dollar in his pocket. Mr. Jiang Nan was also a correspondent, however he never mentioned his grade or honor. He only said that a person must clench one's teeth and struggle. A person should

not fear poverty; what he should fear is losing his dignity and faith in being a man. Let's talk about life's pressures, and ask, where are there no pressures from life? What pressures do you have, anyway? Is it the enormous psychological pressure that Mr. Li talked about? He wrote, "How can I go to work? How can I wash dishes and pots and pans? How can I earn wages from the little owner of a small restaurant? How can I take such low-class work?" One sentence—"How can I suffer like this and endure such pain?"—makes us ask, if you do not want to suffer and endure such pain, then are there others born to suffer and endure pain? What an outmoded, lamentably unfair concept! If a white person sighs with this kind of feeling and thinks that only Chinese people should do this kind of labor, how can we feel?

Fellow students, whenever you sigh with feeling like this, I cannot bear it! You must ask yourself, why can't you take it? How can you not bear it? If it is only because you are weak, afraid of pain and fatigue, and cannot cast down your lamentable air of being a "spiritual aristocrat," then you must redouble the suffering of your body and soul. You must break free of the mold of the past and be born again. Then you will deserve to be a real man!

Speaking of unbearable things and of pressure, let us see what kind of attitude Hemingway, the great American author, had. He received the Nobel Prize for Literature for his work *The Old Man and the Sea*. He committed suicide because he could not tolerate his illness any longer. However, through his life and his works he created a series of touching, "lawful protagonists." These people were able to adapt and still live in this violent and chaotic world. Their perseverance and actions represented honor, willpower, and tolerance. Only a tense and painful life can temper a person into becoming a real man. As the saying goes, "Let him do well, and even if he is defeated in the end, that's life." "Of course, if you are defeated, the important thing is how you maintain your bearing during the disaster." What you self-supporting students need when you are under pressure is this kind of bearing. This is how, through deep introspection, all knowledgeable and self-respecting Chinese recover a demeanor of human dignity and self-confidence.

Fellow students, do you not know that in Western psychology we often come across the saying, "Mankind will surely face extermination. Only those who understand the absolute truth and those who firmly believe in this truth can avoid it." This is detached spiritual power. Now, are you people who understand the absolute truth and who have obtained this kind of detached spiritual power?

Fellow students, why are you going far away from home? If we believe that Miss Han's words, quoted in Mr. Li's article, are sincere (she said, "If we use our knowledge and talents in China, then we are like fish in water and tigers with wings."), then how can we understand those of you who want to stay in foreign lands? Once I asked a friend from Perth, Australia, to speak frankly about the

situation of overseas mainland Chinese students there. She said they did not have a very good reputation. I asked why. She said it was because they did not want to leave. As a Chinese person, I felt bad after I heard this. Originally, if one wants to go somewhere, we cannot criticise too much. But if tens of thousands of people flock to one place and try to think of ways to stay on, then this is a different matter. It is just as what Mr. Li pointed out: 100 percent of overseas Chinese students want to leave the country [China]. "If the Australian government allowed overseas students to apply for immigration, I haven't the slightest doubt that all overseas students would 'come out of their caves in full force' and vie with each other to apply." What is all this? In a word, one thinks of solving the "nationality" problem. This is like rural people who think of ways to move their residency to the city. I do not want to say much. I only want to raise one question: Why can we, who were born in this land, not solve our own problems? What makes you children, who are pitiable and not yet mature enough, leave your own native place? One American told me, "Why can't you manage your own affairs?" Truly, why is this?

Fellow students, you must understand, if the reason you go abroad is to start your careers, then you should not look at your shadows and lament your lot, or cry and blame God and man. Since you have a chance to enter a new life, you must break away from your former selves and build new selves, and be reborn again. You must be people who are stubborn, have confidence, and advance bravely; you must be intelligent people. You must learn to deal with reality, cast off your burdens, and adapt to life. To tell you the truth, I have always had such a feeling. I feel we Chinese have generally been living in a "steady, sweet environment." Compared with Westerners, our material lives are very poor. However, we Chinese have a sense of social security which is far superior to that of Westerners. In reality, we have been spoiled. Our fighting will has degenerated as lamentably as that of the Eight Banners' children at the end of Qing Dynasty. Let us turn to the history of Westerners as they discovered the New World, to the history of England's Industrial Revolution, and to the developmental history of American immigration. Let us also look at the lives of the ancestors of American black people. Let us consider how Chinese people developed Southeast Asia in the last century. Let us think about the enormous sacrifices made by the Japanese in the course of their original capital accumulation. Perhaps you still remember the tragic story of old lady Ah Qi and some of the stories about the sisters from Southeast Asia. Think a bit: does your suffering amount to anything? Your suffering today only concerns having too much bread and butter, which upsets your appetite; or perhaps you have worked 10 hours and think your remuneration is not fair; or perhaps you have eaten only one 18-cent bag of instant noodles. Do you know that many Chinese people have never even heard of butter or never tasted instant noodles that cost only 18 cents? How is it that they they

were born to live an inhumane life while you have the right to complain and blame injustice?

Fellow students, you must understand, if your goal in going abroad is solely enjoyment, to live "upper class" lives, to change nationality, then you are entirely wrong. Maybe some of you will make it, but most of you will be unfortunate. What you do will only arouse the disgust of the local people. You will close a path for youths with real talents who should go abroad for advanced education. Perhaps some of you will say you could not care less. True, you may think this way. Selfishness gives no cause for much criticism. However, this does not mean that we will not suggest the principle of being a man with a lofty spirit. At this point, I fully understand the rules that are formulated by foreign governments and strictly imposed on overseas, mainland Chinese students who enter their countries. These rules are aimed at those who act blindly. From their society's point of view, you are only parasites. You are there only to reap the fruits of others' labor. If every compatriot from mainland China could enjoy the social benefits—that is to say, receive \$250 [Australian dollars] weekly, approximately equal to a relief fund of 750 yuan [renminbi]—that local Australians do, I cannot imagine what would happen.

As people from a developing country, we are easily tempted by the material prosperity of the Western world. We blindly pursue this kind of high-class material enjoyment, but ignore the price the West has paid for this material prosperity. When we go to the office with our cups of tea and newspapers and enjoy the superiority of socialism, Japanese people are hard at work, like worker bees. I have an American friend who is a millionaire. I thought he would lead a life of debauchery, but in fact he does not. He does not eat breakfast, and for lunch he only has a cup of coffee and a sandwich; the sandwich is actually only two pieces of bread, a slice of meat, and some lettuce. Every day he works 10 or more hours without taking a nap. How could Chinese stand this kind of life? Look at us Chinese: A young couple makes a few hundred dollars a month and they want to hire a housekeeper. Why? First, they are lazy, and second, labor is too cheap. My friend also has hired a black housekeeper; the housekeeper only works five days a week, cleaning the house and taking care of some chores every morning. She earns \$1,000 a month. From this example we realize that expensive labor forces people to work hard and do everything themselves. On the other hand, surplus labor is not only a burden on society, but it also serves to corrupt the willpower of society's members. This is why, over thousands of years, our society has become different from other societies. It is also the reason that social ills last so long. Any country which does not restrict third-world immigrants will inevitably be contaminated by this old, chronic illness. In fact Western countries recognized this point early on.

At present, people like to use "quality" as a measure of a person's character. After sighing feelingly that students from mainland China were merciless, Mr. Li wrote, "The quality of students from Taiwan is good. They

know how to treat people politely. They are always polite and courteous. I have never seen them treat other schoolmates with arrogance." If we consider treating people politely and without arrogance to be good quality, then is it not arrogance when Mr. Li despises "hard labor"? Does this mean that the quality of our compatriots from mainland China is very bad? True, our quality is indeed not high. Thousands of years ago our ancestors said, "When your warehouse is full of rice, you know how to act politely. When you have enough to eat and enough to wear, you understand the meaning of honor and disgrace."

Then what is quality? Quality is a kind of characteristic. If we use a very liberal concept to describe it, we could call it personality. Personality is the special form of a person's ideology, emotions, and behavior. This will manifest itself when a problem appears. For example, a few friends take a trip, and one becomes carsick. All of us must go to him to "show our concern." I have encountered a similar situation. The English just sat aside, "looking on coldly." No one would have cared for that pitiful person if she had not spoken out. Myself, I showed the special sympathy we Chinese have. I thought the English were too cold, but what I learned was that you had best let her be quiet for a little while. It is quite true, when you think about it. If somebody really feels poor, what he needs is to rest quietly and recuperate; he does not need chaotic concern. Would you agree this is so? In this case, I think the English understand people better than I, and they know how to care for others. My way of showing concern is only superficial, but their way is more practical. By the same token, what about when we encounter difficulties, or when we are in bad shape? Perhaps the Americans would take it easy, and the Japanese would clench their teeth. Generally, our reaction would be full of grievances, and we would blame God and man. At least, I did not see any positive attitude or any expression of facing difficulties with optimism and determination in Mr. Li's article. In essence, if Mr. Li's straightforward article truly reflects the author's thinking and feelings, then its "quality" is really very bad.

I am very fond of what Carlyle said: "The most important mistakes are those one does not know one has made." I am often deeply distressed by this kind of ideological confusion. Whenever we encounter obstacles and difficulties, this kind of ideology will not lead us to face reality or internalize our experiences. On the contrary, it will lead us to blame others. On a small scale, when a three-year-old boy stumbles over a rock, his mother consoles him, saying, "Don't cry, it's the rock's fault." On a large scale, when we realize the backwardness of our country and nation, we often react in the same way. When the Qing Dynasty was under attack, we said we had no strong warships and cannons. Yet when we had these things and were still under attack, we blamed the corruption of the Qing Dynasty. When we overturned the Qing Dynasty, we still had internal disturbances. Finally, we had a radical revolution to

build socialism, and yet we are still in a state of poverty and blankness. We still have other reasons, such as, if we had not had the Great Leap Forward, the Anti-Rightist Campaign, the Cultural Revolution, etc., then our society would probably be thus-and-so. But why do we not ask ourselves, what have we done in the past? What are we doing now? Why are we not currently calling ourselves to account? If you have been deceived, and you do not look for the cause within yourself, but blame the swindlers for being too tricky, then you will be deceived again! This is how our lamentable ideological method enables us to be swindled again. In the final analysis, it is useless to blame others or the environment. We must blame ourselves, sort out and overcome our own problems, and then we can find a new path!

Mr. Li, fellow students who are crying and suffering abroad, it is not that we do not sympathize with your situation. It is that we cannot accept your weakness. Moreover, we cannot approve of your muddling ways. Your complaints reflect that your personalities are not sound enough. At the same time they lead us to think extensively, and among our thoughts are considerations of our own quality. These considerations enable us to see our mistakes in developing character and in education over the years.

Finally, I still want to say you have not lost your motherland, and you have not lost our concern and love for you. We only hope you have higher principles and standards for becoming persons, as you study hard and struggle.

May God bless you, and may you achieve your goals!

Magazines Increasing After Anti-Pornography Purge

OW1103115091 Beijing XINHUA Domestic Service in Chinese 0319 GMT 11 Mar 91

[Text] Beijing, 11 Mar (XINHUA)—China's periodical market has a new outlook following the "anti-pornography," curtailment and rectification campaigns. The statistics issued by a competent department on the circulation of this year's first issues of several hundred kinds of periodicals across the nation show that the circulation of periodicals as a whole is on the rise. Many periodicals have special characteristics ranging from content to design. Print quality has also improved.

Enjoying a fair circulation increase are party magazines used as tools for publicizing party opinions, current events magazines and, most popular among the reading public, digests. For example, QIUSHI [SEEKING TRUTH] has a circulation of 1.8 million copies, an increase of 200,000 copies over the same period last year; GONGCHANDANG YUAN [COMMUNISTS], 1.63 million copies, an increase of more than 300,000 copies; BAN YUE TAN [SEMIMONTHLY TALKS] has a circulation of 6 million copies; NONGMIN WENZHAI [PEASANT DIGEST], 3.54 million copies, a growth of 900,000 copies; READERS DIGEST, 2.16

million copies, an increase of 310,000 copies; and ZHONGPIAN XIAOSHUO XUANKAN [SELECTIONS FROM NOVELETTES] almost doubled.

In addition, the circulations of cultural and life magazines, supplementary teaching magazines, general science magazines and general interest magazines also enjoy a marked growth. For example, JIATING [FAMILY] has a circulation of 1.89 million copies, an increase of 230,000 copies over the same period last year; XIAOXUESHENG ZUOWEN [ELEMENTARY STUDENTS GUIDE TO COMPOSITION], 970,000 copies, an increase of 80,000 copies; ZHONGGUO LAONIAN [CHINA JOURNAL FOR THE ELDERLY], 380,000 copies, a growth of 80,000 copies; and FEIDIE TANSUO [PROBING THE SECRETS OF FLYING SAUCERS], 300,000 copies, an increase of 60,000 copies.

According to an authoritative personage from the China Press and Publications Administration, the growth of periodical circulation can be attributed to the following reasons:

- The distribution channels for bad magazines were stopped, thanks to efforts to improve and rectify the magazine market, which resulted in magazines continuously trying to win over readers by presenting healthy, forward-looking, colorful, and realistic content.
- The national exhibition of periodicals held in Beijing in September last year and award-giving activities for excellent periodicals helped tighten the ties between magazines and their readers and provided opportunities for the trade to learn from each other by exchanging their opinions.

As a result, many magazines made marked improvements in aspects ranging from content, covers, and layout, to print quality. As the party's ideological and organizational construction is being continuously strengthened and its ideological and political work deepened, the demand for party magazines in society has increased correspondingly. With social, political and economic progress, people's needs in cultural affairs tend to develop in multiple orientations. Therefore, digests and collected works with ample, informative, and pleasing contents, as well as magazines with general interests in culture and life are in line with this trend. Another factor for the increase of magazine circulation is smooth distribution channels.

Publications Distribution Association Established

OW0803034191 Beijing XINHUA in English
0212 GMT 8 Mar 91

[Text] Beijing, March 7 (XINHUA)—The China Association of Publication Distribution, a non-governmental organization voluntarily joined by state-owned units, collectives and individuals engaged in whole and retail

sales as well as import and export businesses of publications throughout the country, was set up here earlier this week.

Liu Gao, deputy director of the Press and Publication Administration of China, was elected president of the association.

China's publication industry has made remarkable progress in the past decades. A complete publication distribution network has covered all parts of the country.

Up to now, the country has a total of 110,000 book distributors at all levels, including state-owned and collectively-owned enterprises as well as individual peddlers.

Novel Praised for Applying Mao's Literary Theory

OW1503011391 Beijing XINHUA Domestic Service
in Chinese 1124 GMT 14 Mar 91

[By reporter Li Siyang (0491 1835 2254)]

[Text] Beijing, 14 Mar (XINHUA)—*New War and Peace*, a historical novel by 77-year-old Li Erchong, has sparked a profound interest among the literary and art circles as well as the geriatric department. CHINA GERONTOLOGY NEWS, LITERATURE AND ART NEWS, and the Hubei Provincial Academy of Social Sciences jointly sponsored a seminar on the novel at the Great Hall of the People today.

Nie Rongzhen, Bo Yibo, and Song Renqiong sent congratulatory letters to the seminar, hoping that the seminar will bring about a greater publicity of Mao Zedong's thought on literature and art, the strengthening of patriotic education, and the prosperity of Chinese literary and artistic works.

Consisting of six volumes in 3.4 million characters, *New War and Peace* portrays nearly 1,000 personages and vividly reproduces the Chinese nation's arduous struggle against Japanese imperialist aggression from the September 18th Incident to the Japanese surrender on 15 August 1945. A native of Hebei's Fengrun County, author Li Erchong was a Standing Committee member and director of the Propaganda Department of the Central and South China Bureau, governor of Hebei Province, and held other posts. His works were published as early as the 1930's. He never stopped writing during his hectic military career and political activities. With great determination and zeal, he wrote the novel after retirement from leading posts.

Experts and scholars attending the seminar spoke highly of the septuagenarian author's application of Mao Zedong's literary and artistic thought in achieving fruitful results in creative works. They also explored from various angles the ideological and artistic value of *New War and Peace*.

Standing Committee members Wang Ping and Kang Shien of the Central Advisory Commission, and Vice Chairmen Wang Renzhong, Yang Jingren, and Wang Guangying of the National Committee of the Chinese People's Political Consultative Conference attended the seminar.

NATIONAL AFFAIRS, POLICY

Officials View Structural Readjustment in 1991

91CE0343A Beijing ZHONGGUO TONGJI XINXI
BAO in Chinese 31 Jan 91 p 1

[Article by Li Qiang (2621 1730) and Liu Chengxiang (0491 2052 4161), deputy directors of the Balance Department of the State Statistical Bureau: "While Successes Are Being Achieved in Adjusting the Degree of Austerity, Deeper Conflicts Still Urgently Need To Be Resolved"]

[Text] The year 1990 was one of transition between the two phases of improvement and rectification. In order to resolve second phase problems, such as our irrational economic structure and poor economic efficiency, and premised on continuing to adhere to the "double tight" fiscal and monetary policy, the CPC Central Committee and State Council have taken timely steps to adjust their operational degree of macroeconomic austerity. As far as our actual economic operations are concerned, we would like to note that while the steps taken to adjust the degree of austerity are basically achieving their desired results, the overall public demand structure still needs to be readjusted. Therefore, 1991's work emphasis should be shifted to structural readjustment, improvement of efficiency, and balancing of revenue and expenditure.

Steps Taken To Adjust the Degree of Austerity Are Basically Achieving Their Desired Results

While it was necessary to adjust our degree of austerity, we should guard against easing off too much, in order to keep our economy from overheating again. Thus, it is even more important to assess how well the steps taken to adjust the degree of austerity are achieving their desired results. This assessment should be carried out in the following order of levels and indicators of the factors and targets involved in our economic operations: 1) whether we are achieving the desired increase in overall demand; 2) whether we are achieving the desired increase in investment and marketing; 3) whether we are achieving the desired rate of economic growth. In assessing these indicators, we must look at both accumulative growth during specific periods of time, and also degrees of growth at points in time from the perspective of movement.

First, we will look at our overall balance of supply and demand. Preliminary calculations show that overall public demand was 4.2 percent lower than overall supply in 1990. In comparison to 1983 and 1985, when supply and demand were better balanced, the 1990 imbalance was slightly greater, approaching the 5 percent warning line for empirical data. This shows that overall demand has already increased to the desired degree, and that overall public supply and demand relations have been adjusted to within basically normal limits.

Second, let us look at the state of our investment and market sales. While our retail market commodity turnover increased 1.9 percent and our accumulative investment in fixed assets increased about 5 percent in 1990, both of which were short of the desired increase, our investment and marketing have clearly recovered their growth trends along with the gradual impact of the steps taken to increase demand. Our retail commodity turnover was 7.4 percent higher in October 1990 than in October 1989, and increased 10.3 percent for two months running in November and December 1990. Our 1990 investment in state-owned fixed assets increased 11.2 percent in October and about 8 percent in November. These larger investment and marketing increases in recent months have changed our former understanding that accumulative growth was traditionally lower during the fourth quarter. At this rate, the desired increases could be achieved in just a few months.

Third, as to the state of our production, while our estimated 1990 GNP growth of 4.4 percent according to constant prices did not reach the 5 percent that was planned, it did achieve a growth trend. Our 1990 GNP grew 1.6 percent in the first half of the year, 2.7 percent during the first quarter, and 4.4 percent for the whole year. From the immediate perspective of these quarterly increases in rate, it cannot be said that we are not achieving the desired results.

Summing up these three indicators leads us to the assessment that the steps taken to adjust the degree of austerity are achieving their desired results.

Our Overall Public Supply and Demand Structure Still Need Readjusting

While the quarterly increases in the growth rate of overall public demand had basically balanced overall supply and demand growth by the end of 1990, the steps taken to increase demand took effect late in the year, the still irrational demand structure is an objective factor in our stagnant national economy, and the obstacles to social reproduction have not yet been cleared away as expected.

Overall demand peaked in the last half of the year. While overall public demand increased 8.3 percent in the first half of 1990, it nearly doubled to reach 16.4 percent in the last half of 1990. As a result, although 1990's overall supply and demand balance transition tended to conform to the laws of a normal year, the size of the transition span was remarkable. There was a 13.1 percent positive balance in the first half of 1990, but a 4.2 percent negative balance for all of 1990, for a transition span from positive to negative of 17.3 percent, which was clearly larger than 1983's 12.6 percent and 1985's 15.1 percent. This fully shows that the steps taken to increase demand took effect late in the year in a sharp trend.

The demand for circulating capital investment increased rapidly. Preliminary calculations show that our 1990 circulating capital investment demand increased 38.9

percent, rising from 27.2 percent of all investment demand in 1989 to 33.2 percent in 1990, while the percentage of all investment demand accounted for by fixed assets investment demand dropped 6 percent from 1989 to 1990. This irrational demand structure caused a great amount of overstocking of commodities, which formed a circulation obstacle to social reproduction.

Individual consumer demand slipped. Savings of urban and rural residents increased at a record pace in 1990, achieving a net increase of 188.7 billion yuan, or 55.4 billion yuan more than in 1989. This great increase in savings deposits put a large amount of cash income in banks and weakened consumer demand. Preliminary calculations show that individual consumer demand increased 9.2 percent in 1990, which was less than the 13.4 percent increase in overall demand.

While these increased savings provided banks with large amounts of funds, most of them were used for circulating fund loans. Moreover, most circulating fund loans were tied up in overstocked finished products and commodities, which caused more enterprise losses, lower economic efficiency, slower structural readjustment, and national fiscal difficulties.

Our Economic Work Emphasis for 1991

In 1990, we gave priority to adjusting our degree of austerity focused on stimulating markets and speeding up production growth, which put the increase in overall demand in line with the increase in overall supply, and brought our national economy into a phase of full-scale recovery and to the verge of moderate growth. In 1991, we should shift our economic priority to readjusting the economic structure, improving economic efficiency, and achieving a balance of revenue and expenditure.

1. We should unhesitatingly control overall demand, prevent one-sided striving for speed, and focus the whole nation on improving economic proficiency and efficiency. As economic growth is subject to objective periodic laws, we must not wait to take control steps until all indexes have reached the desired points, which would overheat our economy again due to the effects of momentum and time lag. Rather, we must take drastic preventive measures in advance, in order to bring stagnant growth to the correct rate. We must plan loans according to credit rules, plan fiscal balance based on the principle of living within our means, and do a good job of maintaining overall control.

2. We must focus on stimulating markets, continuing to dredge reproduction circulation channels, and promoting turnover of the huge existing savings in order to lubricate all links of the national economy. We should make the vast rural areas and large- and medium-sized enterprises our priorities in stimulating markets and promoting savings turnover, by adjusting their demand structure, expanding rural consumer goods markets, and helping large- and medium-sized enterprises to upgrade their technology, develop new products, and improve

their product quality. Moreover, we should emphasize warehouse inventories to invigorate existing funds.

3. We should judge the hour and size up the situation, by expanding reform and gradually merging our dual-track capital goods prices. The current macroeconomic climate is making it possible to merge some capital goods prices. As there is hardly any difference between the planned and beyond-plan prices of certain capital goods, merging them will not cause too many waves provided we choose the right time to do it. Price reform should be used to speed up rational readjustment of product mix and improvement of product quality.

Joint Economic Roles of Planning, Market Regulation

HK3102150191 Beijing ZHONGGUO QINGNIAN BAO
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[Article by Chen Yuan (115 0337) "The In-Depth Problems of Our Country's Economy and the Choices (Main Points)"; first four paragraphs are ZHONGGUO QINGNIAN BAO summary of article]

[Text] The development theory which centers on decontrolling and turns a blind eye to macrocoordination will necessarily break the national economy into isolated fragments, depriving the state of its centripetal power and resulting in economic collapse and sociopolitical disintegration.

To speedily halt the tendency toward a decentralized "small peasant economy" we must vigorously strengthen, as the most fundamental way, the authority and power of the central government, reestablish the macroregulatory and control system, straighten out the relationship between planning and the market, and renew the organization of enterprises (especially central enterprises). All these, no doubt, signify a new centralization.

After a decade of reform, the economic structure has become regulated and controlled by administrative and capital power. It has become increasingly monetary in nature and can therefore be called a "two-power economy." Its characteristics are: Weakened administrative powers, the increasingly larger role of capital power, and over-expansion of local interests, with the result that signs are appearing of a "principality economy."

We should be able to clearly see that, for a very long time, there will not be a rapid rise in China's per capita resources. This basic fact indicates that China's economy must be underpinned by direct planning, guided by indirect regulation and control, and that market operation must be taken as the mechanism. Planning and the market grow together and depend on each other for existence.

I. Either We Move Ahead Toward Revitalization or Retreat to Disintegration

1. After a decade of development and reform, China's economy has been greatly strengthened in economic power and structural flexibility. This has created conditions for future further development and for a better adaptation to the international economic environment. However, during the same period some new problems and contradictions have also appeared at deeper levels. The recent improvement and rectification has scored notable results in stabilizing the economy and society without, however, solving the long-standing and deep-level contradictions. It should also be pointed out that we are still far from having a consensus on the issues. Some think that China's total supply and demand contradiction has been solved and even argue that the chief contradiction now lies in insufficient total demand. Some simply reduce the current economic maladies as stemming from "a weak market," opting simplistically for further stimulation of demand under the impression that this will revive the economy. These views overlook and forget that, in our experience over the last 40 years, the most difficult thing, and the chief contradiction, has been managing total demand.

2. At present, although the problem of aggregate expansion has been relieved to some extent, the mechanisms which have been continuously "reproducing" the "double expansion" of investment and consumption have not yet been changed in any fundamental sense. Structural contradictions remain very acute. Specifically, excess processing industrial productive forces caused by repetitive importing, itself a result of competition among units, has not yet been really addressed. Short- and long-term contradictions remain unresolved. Because of the weak market, enterprises cannot hope to pass on price increases to consumers. The pressure of "super-distribution" is now felt within the enterprises and, under heavy pressure, their economic efficiency is generally falling. But it remains difficult for enterprises with poor economic efficiency to close down and stop, or to be merged and transferred, with the result that: Impoverished economic entities remain within the economic flow and are not eliminated and the proportion of central finance in national income is further reduced, posing the great danger of further losing control over the economy and economic disintegration.

3. If the current structural contradictions cannot be promptly resolved, they will inevitably threaten overall equilibrium. Excessively expanded entities will further consolidate their interest patterns, the establishment of which was a mistake from the start; keep pushing for further expansion of the processing industries, being abundant as they are; and, extracting further concessions in finance, taxation, credit, and prices from the central authorities, will thus remove the remaining restraints on excessive demand. The disintegration of the economy on the macroeconomic level will spread from investment, finance, and taxation to banking, prices, and foreign

exchange. In fact, this process is already well underway, and most people have not yet realized it.

4. The pursuit of the retrenchment policy to check aggregate expansion cannot be stopped short. We must time the structural adjustment well and introduce it exactly when the aggregate adjustment is beginning to yield results. If we fail to make our way through the "structural trial," we will not even be able to hold out our achievement of the "aggregate amount." If we stop short in the middle of the course, vacillate, or retreat, all our efforts will be wasted and aggregate expansion will make a comeback. Now is the critical moment for structural adjustment. We either go forward or we will be pushed back.

5. However, precisely when structural adjustment is at a critical moment there appears a tendency to underestimate it. Somebody identifies the sale of products currently suffering from sluggish market sales as the starting point of an enlivening effort and reactivating the market as the key. Some simplistically put the problems with China's economy down to activating infrastructure construction and an increase in investment, believing that, since in China's economy it is difficult to get rid of "rate efficiency," we can only be realistic and try to satisfy all the various vested interests by expanding the aggregate amount. There is this partial view which sees reform merely at the microscopic level and identifies it with decentralization and decentralization. But this will only lead to an unrestrained expansion of demand. They fail to see that some degree of market pressure on enterprises is a necessary premise for enterprise reform and the starting point for a genuine market mechanism in which prices serve as signals. Protecting and nurturing this newborn restraint mechanism on demand is where the hopes of reform and rebuilding a new operation mechanism lie and, therefore, we should not lightheartedly crush it or retreat from it. One basic condition for economic development is that economic cells are all active. That this is good we readily agree. However this kind of activeness must be based on an overall mutual coordination, with the cells being able to flow freely and perish and be reborn again without hindrance. If these kind of active cells could only grow by destroying the aggregate coordination of mechanisms and, once born, could not be put to death, nor could they flow freely, then they would only be harmful and become cancer cells.

Active motivation at a local level is required by economic development and is certainly good but this kind of motivation must be brought into line with national economic stability and coordination. If active motivation hampers macroscopic regulation and control, it will become a blind force and harmful. The stronger the blind force the more destructive it will be.

It is of course good to satisfy people's wishes but once the satisfaction of wishes is not restrained by income, and once people are unwilling to accept external restraints

and are bent on identifying themselves with the high consumption in developed countries, they are divorced from China's reality.

6. This line of thinking on development, centering on relaxing the grip on powers but turning a blind eye to macroscopic coordination, is going to fragmentize the national economy into isolated pieces in which unhealthy demands will be: constantly undermining the checks on resources; thinning out the reserves; weakening the central financial authorities; and neutralizing the state's centripetal pull, resulting in economic collapse and, later, in socio-political disintegration.

Everybody agrees that the present is the best moment for reform but some comrades bank all their hopes on microscopic reform. Do not forget that the loss of macroeconomic control was the direct cause of inflation and structural imbalance. Without effective macroeconomic management, microeconomic reform will be deprived of the necessary environment and might veer in a wrong direction. Therefore, the most pressing issue now is to resolve problems at the macroeconomic level.

II. The Way Out Lies in Strengthening Macroeconomic Regulation and Control and the Market, To Create a New Modern Economic Concentration

1. To speedily halt the tendency toward a decentralized "peasant economy" pattern we must, as the most fundamental measure, rearrange the existing interest patterns, vigorously strengthen the central government's authority and powers, create a new macroeconomic regulatory and control system, straighten out the relationship between planning and the market, renovate the organization of enterprises (especially central enterprises), and promote the development and reform of our country's economy in an organized and orderly manner. No doubt this signifies a new centralization [jizhong 7162 0022]. The key for resolving the current and future chief contradictions lies in whether we can, in a relatively short time, once again concentrate the necessary powers, especially the economic powers revolving around financial centralization, into the hands of the central government. At the word centralization some comrades will say that this means giving up reform and opening up and so there should not be centralization. Other comrades will not understand and will worry about the consequence of "dynamism being throttled by tightening control, which is done upon the slightest confusion." In the new historical period, a suitable degree of economic centralization will not simply repeat the tightening of powers and centralization as was done previously. Not only is the new centralization objectively required, in itself it contains many new regulations.

2. Now that we have passed the trial of curbing the aggregate amount, readjusting the economic structure confronts us as an urgent task. Ultimately, the structural contradiction, a long-standing problem, is caused by decentralization and inflation. To pass the structural trial, we must reorganize and adjust the power structures

of all economic main bodies in a way that will leave the central government with more strength and powers for economic regulation and control and, therefore, with sufficient influence on the direction, rhythm, and stability of the economic development. We cannot avoid or sidestep such a move. Delay will only mean heading toward disintegration.

3. The first 10 years are characterized by extensiveness, with the central authorities granting powers and profit concessions to various economic main bodies at different levels, and brought positive results. However new contradictions have appeared:

—Spurred on by impractical, short-sighted and profit-making motives, people sought absolute decentralization of powers, neglecting the real conditions for rearing a commodity economy and ignoring, or even negating, the necessity of centralization. Commodity relationships were introduced into the relationships between localities and departments to such an unduly large extent that they went beyond the rational limit, resulting in a situation which bordered on a "principlity economy."

—The process of decontrolling and profit concessions did not focus on the supply side; power in various main bodies was not relaxed according to their conditions. This was particularly true in stopping intervention in enterprises' production and management. The process instead weakened the control and restraints on demand.

—All these wrong changes were related to another mistaken, and more basic, concept. That was the belief that in the current economic system, main bodies are completely equal in status and all act according to the principles of the commodity economy. The request for benefit by any main body (mainly effective demand) should be fulfilled as much as possible and all competition and races revolving around effective demand are rational. This, in effect, encouraged more directly the mentality of "iron rice bowl and all eating from the same big rice pot" at a new level, with all main bodies vying with each other for real and solid economic resources and pleading for the elusive equal rights. It should be pointed out that decontrol of power along this line has come to an end. To get out of these straits we must go down to a deeper level, rearrange the power pattern, and concentrate the powers in our hands, powers which never should have been given away, while granting more power to sectors which had not been granted enough power before. Only thus can we eliminate at the root level the conditions for the existence and development of "separatist expansion" and the base for malignant inflation.

4. Some believe that only through further decentralization can we develop productive forces, while centralization will get in the way of our country's economic development. This is another mistaken understanding.

Ours is a backward and developing country. The development of productive forces is not only a matter of expansion and self-renewal at the microscopic level but, more importantly and before anything else, maintaining the equilibrium of the aggregate amount at the macroscopic level so that: First, the economy can operate normally and, second, production structure can continually be improved and upgraded stage by stage. All this must rely on the central government for organization, guidance, and promotion. The view that gives localities and enterprises the sole role in developing productive forces and fails to see the peculiar functions of the central government, only reflects an extremely narrow, primitive, and outdated concept of a decentralized small peasant economy which has been proved wrong by the successful experiences of latter-day industrialized states.

5. If the economy is considered in connection with politics, then strengthening centralization will appear all the more as a matter of course.

6. Nor is it accurate to characterize the new centralization and creating a new macroeconomic regulatory and control mechanism as simply a tightening of powers. The fact is that there are advances and retreats and tightening control and decontrol. Advances mean that central regulation and control must cover all areas and links having a bearing on the overall situation. Retreats mean that the central authorities will loosen their powers by having departments and localities refrain from too much intervention in enterprises in areas and links having little bearing on macroregulation and control; in particular, the central authorities will unload some of the burdens which they should not continue to carry and travel light. The burdens here refer primarily to the undertakings by the state for enterprises and workers under the system of "eating from the same big rice pot." Tightening control is for the sake of creating a macroeconomic regulatory and control pattern more capable of promoting economic development. Decontrol means breaking up local and departmental blockades, producing a unified socialist market, and doing away with too much intervention in enterprises and letting them face the market directly.

7. Strengthening the market is another important aspect in creating a new macromechanism. The rapidly developing unified socialist market has become a basic venue and environment for domestic economic activity. But the structure and functions of such a market have not developed correspondingly and have been split apart through various unnecessary interventions. Such a split does not reflect the constraint of resources but the existence of the interests of other economic main bodies. It is entirely possible for the existing resource constraint to make the unified market more complete and its functions stronger.

Splitting results in confused market signals and keeps market functions in an underdeveloped state. It prevents

them from growing, gives poor resource mobility, and weakens state regulation and control and the market mechanism.

To strengthen state regulatory and control power we must weaken the ability of other main bodies to split and interfere in the market; eliminate the excessive intervention in enterprises; simplify the intermediate hierarchies; and make the market mechanism more transparent, its structure more complete, and its functions stronger.

8. Creating a new macroeconomic mechanism means doing a good, accurate, and pragmatic job in direct regulation and control and strengthening and expanding indirect regulation and control, making sure that these two kinds of regulation and control cover every corner of the national economy so that there are no "vacuums" in it.

9. Direct regulation and control means direct intervention with administrative measures in products and areas related to social stability, national income, and people's livelihood. Under the new macroregulatory and control era, and also in terms of value, direct regulation and control will not account for a large part but will remain the foundation and support of the whole economy. This concerns the stability of the whole situation and there cannot be the slightest relaxation here.

10. The growth and strengthening of indirect regulation and control is another important aspect to creating a new macroeconomic regulatory and control mechanism and an important program in improving the planning mechanism. After a decade of reform the situation we are facing is that constraint by demand has developed somewhat (while constraint by resources is still going strong), the commodity economic relationships has greatly expanded, and the market has grown considerably. If macroregulation and control is unable to regulate or control these established economic relationships, it will be incomplete and powerless and lag behind the objective economic development. The market is self-initiating and self-propelling in function, although certain intervention is needed. The theory that the market is an invisible hand and can automatically complete the allocation of all resources in a perfect manner, indicates a belief in the "market as the panacea" or a "utopian market."

The experiences in other countries in the world proves that the more developed the economy, the larger role the state will play in the administration of society. This contradicts the thinking of our comrades who hold that the more developed the economy, the less the state has to do. This kind of thinking has had its influence on practice, with the result that regulatory and controlling powers supposedly in the hands of the central authorities were all released. We can even say that our administration of society is now in an anarchic state.

The strength of indirect regulation and control will not be affected because of being indirect. In this regard, our party history provides rich experiences. Recently we

have employed massive indirect regulatory and control measures in improvement and rectification. Facts prove that they were as effective as direct regulation and control and, under some circumstances, have achieved even better results.

The central link in the new era of development is creating a new macroregulatory and control system with direct regulation and control as the main supports and foundation and indirect regulation and control as the nerve center.

III. We Must Reorganize the Interest Patterns

1. The creation of a macroregulatory and control system cannot be achieved at one go but requires that the deep structure of the national economy be transformed. This means that we reorganize the interest patterns of economic main bodies.

Interest patterns refer to the status of various main bodies within the national economy and the way of association among them. These are the deep structure of the national economy and determine the mechanisms of economic operations. Some of the current main problems with our country's economy are the outward manifestations of the imbalance and chaos in the deep structure.

2. After a decade of reform, the economic structure has evolved into one subject to double regulation and control by administrative and capital powers and increasingly monetary in nature and can be referred to as a "two-power economy" whose characteristics are: 1) Weakened administrative powers. Part of the functions of administrative powers now lack a normative form and a definite functional channel and capital power is playing an increasingly larger role without, however, having ever been clearly defined. Therefore the boundaries remain unclear. In this circumstance the powers, interests, and duties of one main body vis-a-vis those of another are vague and uneven. 2) The status of various main bodies has undergone obvious change, including structural disequilibrium and wrong "positioning" between main bodies. Such problems are highlighted in the relationship between the central authorities and localities, namely, over-expansion of local interests, excessively commercialized behavior of localities, and the relative weakening of central authorities' interests, leading to the appearance of the signs of an "economy of principalities." 3) The classification of ownership into that owned by the whole people, collectively, and individually owned, and the corresponding management systems do not fit in the new situation.

3. Specifically, the reorganization and adjustment of the new interest patterns of main bodies lies chiefly in defining the property rights within the public ownership system and renewing the enterprise organization. It is not true that the form of public ownership must remain absolutely the same. Instead, it evolves along with the development of social productive forces. Spelling out the boundaries of various main bodies' interest scope within

the existing public ownership represents, in fact, the self-improvement and development of public ownership itself. The rationale on which the reorganization and adjustment of the interest patterns are based, is to match the powers and interests enjoyed by various main bodies with their responsibilities for the national economy.

4. We must define anew the scope of government-owned assets (assets in the hands of the central government), local assets, departmental assets, and enterprises' assets.

5. People-managed assets differ in nature from the above four publicly owned assets. Their functions in enlivening the economy cannot be overlooked. A vast number of services and quite a number of small and scattered processing industries, such as the catering and fashion industries, have in effect come under nongovernment management. We should continue to develop these people-run sectors to enliven the economy.

6. From a long-term perspective, the stockholding system should be the basic form of enterprise organization. However, the stockholding system, which will mainly be concerned with public ownership, is not aimed at quantifying capital into the hands of individuals.

IV. Constraint by Demand Grows From Constraint by Resources, and the Market Is Formed Under the Support of Planning

1. In some of the previous discussions on planning and the market some people, consciously or unconsciously, based their thinking on an ideal state, believing that simply building up a certain perfect economic model would make our country's economy operate in harmony. Such a belief carries an element of superstition in the market and simplistically puts the modern market in the Western economy on a par with traditional socialist economic planning and compares the two. People then proceed to discuss forms of combination of planning and the market from this angle and, naturally, find themselves trapped in dualism. Here it should be pointed out that this kind of method, which aims at tailoring the reality to fit theory based on the myth of the market, is basically wrong.

2. Ours is a big, developing, socialist country. The goal of our economic development is, while actively participating in international division of labor and economic exchanges, developing ourselves into an independent economic power without relying on any country or camps of countries. This goal determines at a fundamental level the path of our development, which is different from those adopted by small countries.

3. To realize this goal we must have an explicit development strategy and clear-cut production policy. So far, the level of market maturity in our country has not yet been able to independently take up the heavy burdens of realizing these strategies and policies. For a rather long period the force of resource constraint will remain fairly strong. Price signals, by themselves, cannot guarantee the complicated allocation of resources. On the other

hand, along with economic development and structural reform, demand constraint will rapidly be strengthened. But these two kinds of constraint, that by demand and by resources, will coexist and overlap, though demand constraint will never be able to completely replace resource constraint. Constraint by resources is chiefly manifested in the growth of the national economy and changes in the production structure and, ultimately, in the constraints imposed by some department whose supply has been inadequate. For instance, the current development level of our country's agriculture (especially grain, cotton, and oil) has very obvious constraining power on employment, people's living standards, and the development of industries and other manufacturing industries. Manufacturing industries on the upper reaches of the Chang Jiang and Huang He constitute obvious constraint on those on the middle and lower reaches. At the same time, the "weak market" which has occurred in large parts of the country since last year, indicates that demand constraint carries with it functions that we cannot overlook and has macroscopic significance. These functions are expected to play a more powerful role in the future.

4. Thus viewed, the relative proportions of dominant sectors in the national economy are shown as the relationship between undersupply and oversupply. Between the two, undersupply obviously is in a dominant and determining position and the fundamental pillar in preserving a stable operation and improvement of the whole national economy. To resolve the contradiction between oversupply and undersupply, and achieve and maintain for a certain period of time an equilibrium between them, we must have in place a most effective operation mechanism. Although having different operation mechanisms, planning and the market are no doubt united in both being regulators of social demand and supply, but they differ in function. Direct regulation and control in the form of planning will be applied to undersupplied or strapped departments and sectors and market regulation will be the main operating element in oversupplied departments or sectors. As the primary industries and resources inputs can determine the allocation of inputs in other sectors, direct planning in primary industries will therefore occupy a fundamental and leading position in the whole system of operation mechanisms. Here, leading position does not refer to the absolute amount of resources the position commands directly but the influence it wields on the operation of the whole national economy. Its decisive influence is demonstrated in its irreplaceable guidance and constraint as seen in important economic activities such as stabilizing the operation environment and realizing structural change; and in ensuring a healthy growth of the market. It should be made clear that, at the present stage, the direct planning mechanism is the basis for the growth and operation of the market and an objective boundary limiting the expansion of the market. This important function of direct planning is fundamental and will exist for a long time. Therefore planning is the premise for the growth of the market. Without its support, the market will rapidly

deteriorate, disintegrate, and die. However, as the underdeveloped primary industries develop, this kind of direct planning will gradually phase out macroeconomic regulation and control. For instance, when the textile industries had developed the "cloth coupons" were repealed and indirect market regulation became the major element.

5. Broadly speaking, planning includes not only direct regulation and control in some specific sectors by the central government (which is confined to mandatory planning), but also indirect regulation and control. In the last 10 years or so, as our country's economy moved toward one characterized by commodity and money, the scope within which the market mechanism played a direct role has expanded significantly. Indirect regulation and control over these expanded areas, however, has not kept up with the development, resulting in a vacuum and confusion in relatively large areas. Indirect macroeconomic regulation and control over the market evolved directly from the market itself and is premised on the market mechanism. The purpose of regulating and controlling the market indirectly is to integrate the self-initiating functions of the market mechanism into a state-specified development route, so that market rational price signals can make possible and organize the competition of tens of thousands of enterprises, preserving the fittest, eliminating the weakest, and making headway, so that the whole sector will revolve around state intentions and contribute to completion of the strategic mission of developing the economy.

6. All these indicate that the key element for correctly handling the relationship between planning and the market lies in establishing, before anything else, a "framework." With the framework having been consolidated directly or indirectly by planning, the market within it will activate, operate, and grow. Then, with the application of intervention with correct industrial policies, the framework will be made to serve the goals of macroeconomic development. This is the core element in the relationship between planning and the market. The two must be symbiotic and rely on each other for their existence.

7. We must try to identify and determine, at different stages, the point at which planning and the market integrate and the extent of integration. Viewed dynamically, different stages in different economic development periods and cyclic fluctuations, the tightening and relaxing, and oversupply and undersupply within these stages, are all shifting and changing. In response to their shifts and changes, the point, and the extent, of the integration of planning and the market will have to be redefined. In this aspect, what remains unchanged is the principle, not the specific planning-market integrating models at any given time. The tendency that fails to promptly develop the market and strengthen the state's role in the indirect regulation and control over the market in response to the objective needs of economic development, is as incomplete and harmful as the tendency to forget the realistic conditions, ignore stages of

market development, lean too much on the market, and deny the role of planning as a regulatory mechanism. We should clearly see that, for a long time to come China's, per capita resources and products will not be raised in any rapid manner. This fundamental fact determines that China's economy be based on the symbiosis, mutual existence, and interaction of planning, direct regulation and control, direct market functions, and indirect macroeconomic regulation and control. It will be a long time before the market can grow to maturity under the support of direct planning and the guidance of indirect regulation and control.

8. The functions of the market mechanism: The market is the basic form of the connection of various main bodies' interests. The new pattern will make the boundaries of various main bodies' interests increasingly defined and clear. Technological progress will cause economic resources to flow and their redistribution and demand will change and develop according to its inherent laws. All this will not be amenable to complete planning. Therefore, in a healthy market equipped with rational price signals, the important signal for resource distribution and reorganization is the market-price mechanism.

9. The functions of the planning mechanism is manifested in aspects such as realizing the aggregate equilibrium of macroeconomy, a continual improvement in the economic structure, and in adjustments of the interest patterns of various main bodies, signifying a new stage and safeguarding the financial initiative of the central government over the whole economy. These basic functions all carry with them a universal and all-embracing significance but stop short of directly intervening in the majority of enterprises. The planning mechanism has the important functions of ensuring the healthy growth of the market, improving the market mechanism, and perfecting the market structure.

10. Mandatory planning will still be in place. Its functions will be confined to products extremely vital to the national economy and people's livelihood, the underdeveloped primary industries in the industrial structure, the hi-tech areas in the economic development process, and some key enterprises in import-export areas. It will exert great influence on the finances of the central authorities. The scope of mandatory planning will vary at different stages of development. However, for a very long time to come it will continue to play a fundamental role in the economy and will be a safeguard for the growth of the market.

11. The economic characteristics described above can be summed up as: Direct planning is the supporting pole, indirect regulation and control is the guide, and market activity is the operating mechanism. Or put it this way: Planning is the foundation and the center of the nexus, while the market supplies the mode and dynamism for economic operations. Planning and the market are symbiotic and depend on each other for existence. Within this relationship, direct planning as the supporting pole

will be determined by national situations; indirect regulation and control as the guidance will be determined by economic scale; and market activity as the operating mechanism will be determined by the motivations for interests of main bodies. All of these are subsumed under our goal of becoming an "economic power standing tall among the countries of the world."

PROVINCIAL

Integration of Planned Economy, Market Regulation

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[Article by Zhu Senlin (2612 2773 2651): "Integration of Planned Economy, Market Regulation"]

[Text] The integration of the planned economy with market regulation lies at the heart of economic structural reform. These days both members of the economic community and workers in the field are actively studying and discussing this matter. All sorts of opinions and suggestions are being bandied about, all kinds of ideas are being debated, and all manner of theories is being tried out. All this cannot but help the search for a correct way to integrate the two. I propose to talk about some of my thinking on this issue.

I. The Objective Inevitability of Integrating Planned Economy With Market Regulation

The integration of the planned economy with market regulation is a form of economic operation. Comrade Jiang Zemin was quite explicit in his speech marking the 40th anniversary of the founding of China, "We must search endlessly through practice, work hard to create a socialist commodity economic operating mechanism that suits China's conditions, and integrate the planned economy with market regulation." There are two kinds of social economic regulatory forces. One is planning, the other is the market. Capitalism practices private ownership and follows a market economy, but the capitalist class has also introduced planning, practices government intervention, and goes in for state monopoly capitalism. Socialism is dominated by public ownership and follows a planned commodity economy. On the other hand, it too must make full use of the market. As a tool and means of regulating economic activities, therefore, planning is not unique to capitalism. Both planning and the market are what socialized mass production and the modern commodity economy inherently need. Engels wrote in *Socialism: From Utopian to Scientific*, "With this recognition, at last, of the real nature of the productive forces of today, the social anarchy of production gives place to a social regulation of production upon a definite plank, according to the needs of the community and of each individual." Here Engels approached planning as a means of regulation when socialized means of production have become state property. The extent to which planning and the market are integrated as well as

the scope and means of such integration vary markedly from capitalism to socialism since they follow different ownership systems. The socialist economy, dominated by public ownership, makes it possible to put the national economy under planned management on a society-wide basis to apply all economic laws conscientiously. Planning and the market are two regulatory forces. We usually talk about integrating the planned economy with market regulation. In effect this means integrating planned regulation with market regulation. Planned regulation is before-the-fact macroeconomic regulation in which the state is the principal player. Market regulation is after-the-fact microeconomic regulation in which the enterprise is the principal player. In planned regulation, because of subjective errors, planning may become removed from reality, resulting in planned imbalances. In market regulation, haphazardness may lead to the economy getting out of control or to economic disorder. The purpose of emphasizing the integration of planning and the market is precisely to make the most of the strengths of the two, sidestepping their weaknesses so that the two can complement each other.

Economic operating mechanisms are conditioned by socioeconomic institutions and serve such institutions. The operating mechanism in which the planned economy and market regulation are integrated is determined by the socialist planned commodity economy. The inevitability of the existence of the planned commodity economy determines the inevitability of this kind of operating mechanism. The socialist economy is a planned commodity economy based on public ownership. This is a scientific conclusion we arrived at after a long practice in socialism for which we have paid a hefty price. It also represents a major development of Marxism. The founder of Marxism argued that the commodity economy would not exist in the future society that would replace capitalism; society as a whole will own the means of production jointly and an individual's labor becomes direct social labor from the very beginning. In real life, however, socialism is not based on a society with highly advanced productive forces. In the real world, public ownership cannot yet advance overnight to a point at which society at large owns the means of production and where a person's labor directly becomes social labor. The commodity economy, therefore, cannot disappear from the real-life socialist economy. Not only that, but it must continue to exist and grow for some time to come. The "Decision Concerning Economic Structural Reform" adopted by the Third Plenum of the 12th CPC Central Committee affirms the socialist economy as a planned commodity economy and the commodity economy as an unskippable stage in socialist economic development. The experience of history has proved that the commodity economy is an objective existence. Understand it, utilize it, and we will be able to accelerate economic construction. Reject it, restrict it, and it will severely hamper economic development. It is harmful to consider public

ownership and the commodity economy mutually exclusive and assume that one can reject the commodity economy by sticking to public ownership. It is also harmful to think that one must replace public ownership totally with private ownership if one is to develop a commodity economy. It can be said that the planned commodity economy under socialism is having an effect with ironclad inevitability. It is precisely this economic attribute that has determined that we must integrate planning with the market in the mode of production and mode of exchange.

The planning-market integration is not one-dimensional. Instead it covers the entire society, with the two being more and more interwoven. The market is the base and planning is the guide. Planning is based on the operations of the market. The market is the starting point, the object of regulation. It is planned regulation constrained by the market. The market operates under the guidance of the plan. Our kind of market regulation is regulation under the guidance of the plan. This is the basic characteristic of the relations between planning and the market under socialism. The integration of planning and the market has three tangible forms: command planning, guidance planning, and market planning. Command planning is coercive to a large extent, but it also takes into consideration the market supply-demand relations and demands the conscientious application of the law of value. If prices are divorced from value for long, the implementation of a plan would run into difficulty and cannot survive for long. Guidance planning, which primarily means indirect regulation and control, relies mainly on economic policies and economic tools for its realization, but it still must go through the market. Market regulation is effected through the supply-demand relations and price changes, yet it must still take place under the overall planning and guidance of the state within the limits of its laws and regulations. These three forms of integration vary from production area to production area, from industry to industry, and from product to product. In actual practice, however, even command planning has to rely more and more on economic leverage to bring about its implementation. In the case of both guidance planning and market regulation, the object is the market and the regulatory and control methods are also mainly economic. This means that the three forms of integration are converging toward some common ground as far as the utilization of market and the utilization of economic leverage are concerned.

The meeting point between planning and the market is the respect for and utilization of the law of value. From the perspective of market regulation, commodity circulation must respect and apply one basic law of the commodity economy—the law of value. Marx noted, "The existence of the market, the existence of market mechanisms, competition on the market, price movements—they are all prerequisites for the presence and functioning of the law of value. From the perspective of planned regulations, questions like what should be the objective basis for planning and how to evaluate the

soundness of planning should all be answered with reference to the law of value. That is why we say that only by complying with the law of value can we unite planned regulation with market regulation.

The state and the government are key players in macroeconomic regulation and control. It behooves them to clearly explain on a theoretical level the nature, characteristics, and functions of command planning, guidance planning, and market regulation and establish the dominant position of guidance planning in the planned management system. Measures that involve major proportionate relations in the national economy and key national construction projects should be carried out through command planning. However, guidance planning should be used to guide the development direction of the overall national economy, straighten out the various major proportionate relations, and standardize economic behavior. Guidance planning should cover the entire society. It should consist mostly of policies: stable economic growth policy, overall economic balance policy, industrial policy, policy to promote scientific and technical progress, social security policy. The correctness and otherwise of the command plan and guidance plan have a critical impact on economic development. We keep saying that we must do a good job with minor adjustments and avoid major adjustments. Yet the three major adjustments after liberation all had to do with macroeconomic regulation and control. For this reason, we must see the scientific and democratic nature of planning work in terms of its ability to ensure stable, sustained, steady, and coordinated national economic development. The lack of synchronization and coordination between the application of economic leverage and the implementation of the plan must be resolved. As we draw up the plan, we must work out the means whereby economic leverage can be utilized and reconcile the three forms to overcome this existing anomaly. From the perspective of planning work, command planning is currently a higher priority than guidance planning, which, in turn, is a higher priority than market regulation. From the perspective of interest mechanism, however, it is just the other way round. As a result, the more planned production tasks one undertakes, the more one stands to lose. Alternatively the plan may not be implemented at all. Macroeconomic regulation and control takes place at two levels: central and provincial/municipal. However, the local level too should be given the necessary broad power to apply economic leverage. Even as we emphasize the vertical leadership of banks and taxation, we should clarify how the state plan should be implemented at the local level and develop local economic services.

We should neither consider market regulation a "panacea" nor be overly sensitive about its side-effects. Temporary and limited side effects, it should be said, are unavoidable. Encourage the formation of a unified national market for both capital goods and consumer goods. Overcome market separatism. Expedite the formation of a financial market, labor market, and technical market. Proceed with price reform systematically

in accordance with a plan. The enterprise is the principal player in the market. To enable the enterprise to live up to market competition, we must insist that it become a genuinely independent economic entity, with a capacity for self-development and self-restraint.

II. Useful Experiences in the Integration of Planned Economy With Market Regulation

Guangzhou is the core city of reform and openness in Guangdong's experimental zone. In the course of economic structural reform, it has conducted some experiments in the integration between planning and the market, with these preliminary success stories:

1. Government management of the economy has gradually shifted from direct management to indirect management. Guangzhou's economy is oriented toward light industry and has only a few enterprises that impact the national economy and people's livelihood. Because of these characteristics, Guangzhou has cut back on command planning while relying on market regulation most of the time. In terms of output value, market regulation accounts for 77.6 percent of industrial output, planned regulation, 22.4 percent. Of the 60 products under planned management, guidance planning accounts for 97.1 percent, with the balance of 2.9 percent under command planning.
2. The vertical isolated circulation system has gradually been dismantled. Instead a network of markets that is open to the rest of the nation has begun to take shape. Rapid progress has been made in breaking into the world market. As far as raw materials for industrial production are concerned, planned supply accounts for 20 percent; market regulation, 80 percent. Of the output of industrial enterprises, 81 percent is marketed by the enterprises themselves while the commercial sector procures just 19 percent in accordance with the plan. The market has begun to guide production and evaluate the plan so that what the enterprises turn out is more suited to social needs. The industrial structure, resource allocation, and economies of scale are all improving.
3. Long-distorted prices have undergone substantial changes. Price reform has been a powerful engine of market maturation. Since 1979, price control on fruits, aquatic products, vegetables, live pigs, cooking oil, and other agricultural byproducts has been lifted one after another, prices of grain and sugar have been raised, and the prices of some daily consumer goods under state control have been adjusted. Some goods have been deregulated. For key capital goods, a dual-track pricing system has been introduced under which list prices and negotiated prices exist side by side. Of total social commodity retail sales in Guangzhou today, 8 percent have state-fixed prices, 12 percent have state guidance prices, and 80 percent have market regulated prices. Of the 1,000 types of industrial consumer goods, 10 have state-fixed prices, such as color TV, salt, and petroleum, while 43 have managed prices under guidance planning, which may mean price differential management or that

the unit concerned has to apply to the government for permission to raise prices or notify the government when it raises prices. This string of price reforms has injected life into the Guangzhou market. Shortages have given way to plentiful supplies. Instead of having its consumption limited, the public can now decide on its own what to consume. There used to be 65 rationed commodities on the market. Now there are only three: grain, coal, and liquefied petroleum gas.

This experience tells us: 1) One must avoid one-sidedness in integrating the planned economy with market regulation. Even as we utilize market mechanisms diligently and expedite market regulation, we must not go easy on planned regulation. Even as we improve macroeconomic regulation and control and better planned regulation, we must continue to nurture the market and make the most of it as a regulator. 2) Price reformers must fully consider the psychological ability of the state, enterprise, and masses to cope, an ability which must be created and enhanced gradually in a variety of ways. During its decade of price reform, Guangzhou took the road of combining adjustment with deregulation and control, adapting measures to suit different categories, adopting the dual-track pricing system as a transitional measure, and shorting out the price system gradually. Commodity retail prices soared three times during this period, first by 7.64 percent in 1980, then by 22.5 percent in 1985 and 29.6 percent in 1988. The first two rounds of price increases resulted mainly from price reform while the last spurt was primarily due to inflation. By 1990 prices were falling, down 4.4 percent in the first nine months compared to the same period in 1989. Price reform caused some minor repercussions, but no extensive turmoil. Of the three—stabilization, reform, and development, stabilization is a precondition for reform and development while reform and development is the base for stabilization. The three depend on and promote one another. Among enterprise revitalization, price reform, and trying to avoid increasing the burden on the treasury, our priority should still be enterprise revitalization. Price reform must not result in a decline in the masses' real living standards. Price increases induced by price reform must be borne by the government treasury and enterprises. The main source of government revenues is the enterprise. Price deregulation and price adjustment helps enterprises compete fairly on a level playing field. On the other hand, it also puts an additional burden on them. If an enterprise really has difficulty taking up such a burden, it should be given appropriate preferential treatment fiscally and in tax matters. In a vast majority of cases, however, price reform has put the enterprise under increased pressure and energized fair competition, boosting enterprise productivity. Between 1985 and 1989, the total level of workers' living-expenses in Guangzhou rose 123 percent, while per capita living-expenses incomes increased 180 percent, or 4 percent annually after factoring in price increases. So living standards have gone up. As for government subsidies, apart from grain subsidy and coal subsidy, which have

increased substantially to keep up with soaring prices, other subsidies have actually come down. In 1989, government subsidies amounted to 700 million yuan (including 400 million yuan in grain subsidies), taking up one-fifth of total government revenues for that year and less than 200 yuan per capita for the urban population, still quite low for a large city. Enterprises have also withstood the test of reform, raising output steadily and improving productivity. A majority of enterprises have not only successfully absorbed the extra expenses incurred by rising prices for raw materials and energy, wage adjustments, and nonstaple foodstuff subsidies, but they have also contributed a lot to the state. In 1989, despite a multitude of difficulties, industrial production in Guangzhou managed to grow 5.93 percent and productivity throughout industry rose 8.29 percent. State-run municipal level industrial enterprises within the budget submitted 126 million yuan more to the state even as they assimilated 365 million yuan in additional spending.

One of the success stories in planned economy-market regulation integration is the vegetable production and marketing system, a system of market regulation under the guidance of planning. Before late 1989, what we had was basically a system of "monopolized procurement and marketing" characterized by planning. It relied on administrative tools and government subsidies and rejected the regulatory role of market mechanisms. The fact that operators did not have to take any risks had led to a "bureaucratic-merchant" style of operations. There was an unevenness in supply between off season and peak periods. Shortages in the off seasons alternated with gluts in peak periods, when large amounts of vegetables were dumped on the market, no less than 1.5 million dan each year. In 1982 the municipal vegetable company dumped a total of 2,058,000 dan. Operating losses and losses resulting from the mismatch between procurement and sales had to be made good by the treasury. In 1984 the government shelled out 16 million yuan in subsidies. Beginning with the last quarter of 1984, a procurement and marketing system that relied on market regulation under the guidance of planning was introduced. To bring about market regulation, there were "three deregulations." First, instead of being assigned tasks, producers are left to determine what to grow on their own in line with local conditions. Second, price controls were lifted. Producers and sellers negotiate prices and deal personally with one another. Third, circulation channels were deregulated by allowing state-owned and collective units to sell and buy vegetables in a variety of ways and by allowing individual peddlers to participate in the marketing of vegetables. The results of "three deregulations" are as follows. First, vegetable growers have become market-oriented independent commodity producers and their production initiative and enthusiasm has been mobilized. Price differences that reflect seasonal changes or quality discrepancy and between different varieties now embody the law of value, so that vegetable farmers are ready and willing to apply advanced technology. The percentage of vegetables on the market that is edible has

gone up from 40-50 percent to about 90 percent. Each day over 30 varieties of vegetables are on the market. Second, the market has been vitalized and the quality of services has improved. Multi-channel competition among multiple players—58 state-run meat and vegetable markets, 122 county fairs, over 10,000 vegetable farmers marketing their own produce, a host of households specializing in the transportation and selling of vegetables—has proved instrumental in regulating surpluses and shortages inside and outside the municipality and inside and outside the province. Third, consumers have gained consumption sovereignty. Faced with a flourishing market, consumers have a wide selection in terms of both variety and quality and can make choices depending on their own preferences and ability to pay. Although prices rose sharply in the early days of price deregulation (the average retail price index jumped 66 percent in 1985, actually 30 percent or so after factoring in the improvement of quality), that proved bearable to consumers as incomes had also risen. There was a broad variety to choose from and shopping was convenient. To effect planned regulations, there were the “three regulations.” Controls were imposed on the number of acres devoted to vegetable cultivation and on the number of vegetable procurement and sales outlets. Preferential policies were applied to base vegetable farmers and municipal vegetable companies. A policy of “four linkages” is applied to vegetable production at the village and township levels in vegetable-growing areas. (They are linkages to grain supply, to the pay and rewards for village township cadres, to the distribution of profits of township and village industry, and to preferential tax treatment for township and village enterprises.) On the basis of respect for the law of value, these measures together with economic, administrative, and legal tools have ensured that land is devoted to planned cultivation and that total supply and demand are largely in balance. Because of the enthusiasm of vegetable farmers, the actual cultivated area in 1990 reached 156,000 mu, compared to the planned cultivated area of 126,000 mu. As far as circulation is concerned, state-owned vegetable companies are playing their role in regulating and controlling the market. The emphasis is on making available a certain amount of contract procured vegetables in the two off seasons of spring and fall. The municipal government subsidy base figures for 1984 were retained as storage fees. Such contract procured vegetables have proved useful in holding down prices in off-peak periods. It has been six years since the reform of the vegetable production and marketing system went under way. The situation in 1990 was even better. The quality and quantity of supplies was ensured. In addition, vegetables averaged 1.126 yuan per kilogram in the first nine months, down 14.2 percent from the same period last year. Meanwhile, policy-related losses of vegetable companies had dropped over 50 percent. Owing to rising unit yields, peasants have not seen their incomes fall despite a small drop in prices. In the first nine months of 1990, the income from a mu of vegetable land was 2,464 yuan on the average, up 330 percent compared to the same period in 1984, when the yield was 578 yuan. What the

reform of the vegetable procurement and marketing system has taught us is this: planned regulation and market regulation condition each other. Without the base provided by market regulation, planned regulation cannot apply the law of value conscientiously and, without effective planned regulation, the spontaneous haphazardness of market regulation cannot be checked and the vegetable production and marketing system cannot proceed smoothly.

Inner Mongolia's Employment During 1985-1990

SK1902034491 Hohhot NEIMENGGU RIBAO
in Chinese 25 Dec 90 p 1

[By Geng Wu (5105 0582): “Our Region Scored Remarkable Achievements in Urban Employment During the Seventh Five-Year Plan Period”]

[Text] During the Seventh Five-Year Plan period, our region arranged jobs for 740,000 job-seekers in the urban areas, helping settle down an average of 148,000 people annually. Owing to the continued increase in the number of employed people, the number of workers in the urban areas across the region will reach 3.812 million in 1990, an increase of 456,000 people over 1985. Of this, workers in state-owned units numbered 2.745 million, an increase of 331,000 people over 1985; workers in urban collective units numbered 873,000, an increase of 83,000 people over 1985; urban self-employed workers numbered 191,000, an increase of 40,000 people over 1985.

During the Seventh Five-Year Plan period, the contingent of minority workers continued to develop and expand in our region. The number of minority workers in state-owned units across the region reached 404,000 in 1989, an increase of 73,000 people over 1985, and the proportion of minority workers to the total number of workers in state-owned units rose from 13.7 percent in 1985 to 14.9 percent in 1989. Among them, the Mongolian workers in 1989 numbered 296,000, an increase of 57,000 people over 1985, and the number of Mongolian workers to the total number of workers of state-owned units rose from 9.9 percent in 1985 to 10.9 percent in 1989.

The structure of urban employment witnessed new changes in our region during the Seventh Five-Year Plan period. The development of urban self-employed workers was quicker than that of workers of the state-owned and individually owned units in the urban areas. In 1990 the number of workers of state-owned units increased 13.7 percent over 1985, showing an average annual increase of 2.6 percent; the number of workers of urban collectively owned units in 1990 increased 10.5 percent over 1985, representing an average annual increase of 2 percent; the number of urban self-employed workers in 1990 increased 25.7 percent over 1985, showing an average annual increase of 4.7 percent. The changes in the employment structure, on the one hand, indicate that the employment avenue in our region has

been widened, enabling the job-seekers to have broader employment opportunities. On the other hand, the changes also indicate that the job selection concept of the urban job-seekers in our region has changed from the unitary "iron rice bowl" to employment through various channels.

World Bank Grants Loan to Hulun Buir League

SK1902075291 Hohhot NEIMENGGU RIBAO
in Chinese 26 Dec 90 p 1

[By Gao Fengxiang (7559 7364 4382): "Hulun Buir League Brings in 48.88 Million Yuan Loan From World Bank"]

[Text] In order to support the development of animal husbandry in Hulun Buir League and to accelerate the building of economic structural reform experimental zones, the World Bank, after sending several project investigation groups to Hulun Buir League to conduct feasibility studies, technical appraisals, and efficiency estimates, recently loaned 48.882 million yuan to this league.

This World Bank loan, together with the supporting loan from the agricultural banks and the creditor's own funds, will be used to support 10 banners and cities in Hulun Buir League such as Xin Barag Left Banner, Xin Barag Right Banner and Chen Barag Banner, and 12 agricultural farms and livestock farms under the Hailar Farms Administrative Bureau. This sum will mainly be used for building basic animal husbandry facilities, developing grassland resources, improving livestock breeding conditions, buying breeding studs and young female animals, and carrying out other animal husbandry projects, such as cattle and sheep breeding projects. At present, the investigation and appraisal work conducted by the banner and city agricultural banks in Hulun Buir League that brought in the World Bank loan has been basically completed and efforts are being strengthened to formulate plans for using the World Bank loan in 1991.

Economists Weigh Guidelines for Xinjiang Economy

OW0403212391 Urumqi XINJIANG RIBAO in Chinese
28 Dec 90, 11 Jan 91

["Draw Up Measures for Building Up Xinjiang, and Think About Ways of Development—Excerpts of Speeches at a Forum on 20 December Attended by Some Economic Experts and Scholars in Urumqi"]

[28 Dec 90 p 4]

[Text] Editor's note: *At a time when we say goodbye to the Seventh Five-Year Plan and usher in the eighth, the XINJIANG RIBAO Editorial Department, the Economic Research Center of the Xinjiang Regional People's Government, and the Xinjiang Regional Planning Society sponsored a forum on 20 December to discuss the basic*

guidelines for economic development, reform, and openness during the Eighth Five-Year Plan period and the next decade. The purpose of the forum was to sum up the lessons learned from the Seventh Five-Year Plan period, discuss the guidelines for the Eighth Five-Year Plan and the 10-Year Program, and encourage cadres and people of all nationalities to work with great zeal to boost Xinjiang's economic development. At this forum, economic experts, scholars, and leaders of relevant departments expressed their individual views on what strategy and measures Xinjiang should follow in face of the opportunities and challenges, and they put forward many useful suggestions for accomplishing Xinjiang's Eighth Five-Year Plan and 10-Year Program as well as its reform and open policies. We hope the main points of the attendees' speeches published here will draw the attention of relevant decisionmaking departments and readers. Among those who attended the forum were Wang Jie, senior economist and director of the regional institute of financial studies; Shen Enhong, director of the Department of Foreign Economic Relations under the Xinjiang Planning Commission; Zhou Congzhao, contract research fellow of the Institute of Economic Studies under the Xinjiang Planning Commission; Chen Shijiao, deputy research fellow of the Xinjiang Academy of Social Sciences; and Peng Mao, director of the Xinjiang Economic and Trade Department. [end editor's note]

Understand the Situation, Feel the Pulse—By Liu Zonghao [0491 1350 3493], President of the Xinjiang Regional Planning Society and Director of the Xinjiang Planning Commission

We must look at two aspects in order to draw up a good program. On the one hand, we must examine the performance of the previous 10 years. While Xinjiang enjoyed a basically sustained, stable, and coordinated national economic development during the last decade, its economic performance was beset with certain problems, which can be generalized as being "loose" and "low." The state of being "loose" is the misuse of resources for unplanned, nonstate projects at the expense of the needs of planned, state projects; redundant construction; redundant purchases from abroad; and similarities in production structures. The state of being "low" results from low economic efficiency. On the other hand, we must be aware of the objectives set to be achieved in Xinjiang by the end this century.

Then we must be aware of the favorable and unfavorable factors. Our favorable factors are: 1) We have all kinds of natural resources. Xinjiang's rich natural resources, which have great potential for future development, are specifically what the state badly needs to develop production, agricultural goods, energy, and raw and semi-finished materials. 2) Xinjiang's advantageous geographical situation permits it to open westward. Until now, major coastal cities are primarily the ones that have opened to the outside world. But now, in addition to these coastal cities, cities in frontier regions and along the Chang Jiang have joined coastal cities in this endeavor. As one important frontier region opened to

the outside world, and especially after the completion of the second Asia-Europe continental bridge, Xinjiang's important role in frontier areas has become even more pronounced. 3) Xinjiang already has built the basic groundwork for industrial development, its agricultural production and light and heavy industrial production are quite proportional, and its water and soil development and oil and petrochemical industries will be the forerunners and pillar industries for Xinjiang's economic development in the next 10 years. 4) Xinjiang's construction has been spreading and the major construction projects will certainly give impetus to economic development in southern and northern Xinjiang. 5) Xinjiang enjoys political stability as well as unity among people of all nationalities. Xinjiang's unfavorable conditions are the unpredictable world situation, a weak economic foundation, the underdevelopment of many resources, inadequate infrastructural facilities, a fragile economy, undeveloped science and technology education, financial difficulties, and the shortage of construction funds. Moreover, while Xinjiang's population growth is higher than the national average, Xinjiang lacks proficient personnel. These favorable and unfavorable factors dictate that Xinjiang's economic development will proceed amid constant adjustments between shortages and relative balance. As far as Xinjiang is concerned, the next decade will be a period of coexistence between opportunities and challenges, and between hopes and difficulties.

This being the case, the development in the next 10 years must proceed under the guideline of upholding the basic party line, focusing on economic construction, upholding the four cardinal principles, and proceeding with the reform and open policy. Xinjiang must make sure that its development will be stable. It must carry out material and spiritual construction simultaneously, integrate reform and development, unify growth and efficiency, draw up a strategy for converting its abundant resources, open all sectors to the outside world, devise a rational construction plan, firmly restructure its production, seek support from scientific and technological development, upgrade its educational quality, and properly handle the relationship between its population and its resources and environment.

Do a Good Job in "Three Grasps and Three Promotions"—by Senior Economist Wu Cheng [0124 2052], Deputy Director of the Economic Research Center of Xinjiang Regional People's Government

At present, a lot of work needs to be done. Now I would like to discuss some simple views, which can be summed up as the "three grasps and three promotions."

1. It is necessary to grasp the policies of reform and opening to the outside world, and promote lateral ties with enterprises in the interior of the country and the import of capital and technology from abroad. In recent years, many problems have arisen in economic life, including problems of quality, variety, and efficiency. Making continuous efforts to deepen reforms and open

wider to the outside world is a very important way to properly solve such problems. In the new year, we should deepen reforms step by step; improve the managerial mechanism of enterprises; foster a market for the elements of production; develop lateral economic ties; organize enterprise groups; and introduce funds, advanced technology, and managerial expertise from other parts of the country and from abroad in order to raise our production and managerial levels as well as increase our ability to cope with change and compete. We should take new steps in opening to the outside world.

2. It is necessary to grasp structural readjustment and promote the improvement of quality and efficiency. All irrational structures should be resolutely readjusted. This mainly refers to the readjustment and optimization of the production structure. The readjustment of all other structures should be made with this in mind. For various reasons, it is now very difficult to readjust the production structure. We should carry out this task like the storming of heavily fortified positions. Specifically, we can start with readjusting the product mix. At the same time, we should ideologically do away with the barriers between regions and departments and the boundaries between systems of ownership. We should proceed from economizing on natural resources to promoting structural readjustment and structural rationalization. This is a prerequisite for the improvement of quality, variety, and efficiency.

3. It is necessary to grasp the opening of markets and promote stability. There must be a market in order to develop a planned commodity economy. The present sluggish market is a manifestation of structural contradictions, a temporary phenomenon. We must not passively wait, however, for the disappearance of such a phenomenon. While readjusting the production structure and the product mix, we should vigorously open markets, including markets in the region and other parts of the country as well as those abroad. As far as production enterprises are concerned, it is most important not to cut off their direct ties with a market; otherwise, it will not be conducive to readjusting the production structure and improving the quality of products.

Suggestions on the Basic Thinking of Industrial Development in the Eighth Five-Year Plan—by Duan Zhenting [3008 2182 1694], Director of the Regional Economic Commission

In view of the experiences and lessons learned in the Seventh Five-Year Plan period and according to the region's current situation and the realities of the macro-environment, we believe that the thinking of industrial development in the Eighth Five-Year Plan of our region is as follows:

During the Eighth Five-year Plan period, our region's rate of industrial development, represented by output value, cannot and should not be high. There will be bright economic prospects for our region during this

period, and we should make big moves and big developments. Our work should stress improving the quality of enterprises as a whole, building key construction projects, and raising the comprehensive quality of our region's economy. We should persist in giving priority to making technological progress in enterprises and strengthening enterprise management, strive to raise the levels of macroeconomic and microeconomic management, increase the development of intellectual resources, and improve the quality of the large numbers of workers. We should get industrial development onto the track of stressing the improvement of economic results and efficiency. We should concentrate funds to ensure the carrying out of key technical transformation projects. We should readjust the investment structure of fixed assets and increase the proportion of investment in technical transformation to the amount of investment in fixed assets. We should rationalize the product mix, technological make up, and structure of enterprise organizations through technological progress. We should seek efficiency, growth, and development through structural optimization. This will make it possible for industry to grow structurally, to bring about a qualitative change in its production as a whole, and to attain a new industrial level in our region.

1. We should optimize the product mix. Based on our region's natural resources and guided by the markets in the region and other parts of the country as well as those abroad, we should concentrate our efforts on the development of new marketable products, increase the production of quality and high- and medium- grade goods, raise the proportion of final goods and products saving transportation expenses, develop in-depth processing, and increase the added value of products.

2. We should optimize technological make up. We should introduce more advanced technologies in order to further improve our technological make up.

3. We should optimize the structure of the enterprise organization. Through the deepening of reform and technical transformation, we should readjust the structure of enterprise organization, develop enterprise groups, increase specialization in the production of goods, and do our best to coordinate specialized production according to different product series in order to engage in socialized mass production. With a small amount of investment, we should expand the batch process and scale of production of specialized products and improve product quality and economic efficiency. We should make efforts to change the repeated production of lower-standard goods on a small scale and the closed pattern of "small-scale and all-inclusive" production.

During the Eighth Five-Year Plan period, each industry should strive to organize an enterprise group, which should become a strong representative of Xinjiang, capable of competing in the domestic and international markets.

We should concentrate our efforts on building key construction projects and pay attention to developing the county-level economy, collective enterprises, and village and town enterprises.

Probe New Ways to Reform Enterprises—by Associate Professor Du Peishan [2629 1014 0810], Deputy Director of the Political Economy Research Office of the Regional Party School

Enterprise reform in our country has been going on along the train of thought that ownership and the right to operate are appropriately separated. In the course of such reform, we have created various forms of separating ownership from the right to operate. To develop the concept of such separation, we should vigorously probe new ways to carry out enterprise reform. During the Eighth Five-Year Plan period, the stress of deepening enterprise reform in our region according to its actual conditions is the same as that in other parts of the country, to vigorously improve and develop the contract system. It is now correct and necessary to do a good job in signing new contracts. At the same time, it should also be noted that there are some serious defects in the contract system. For example, it is difficult for the contract system to really separate the functions of the enterprise from those of the government, and this system causes people to take action with short-term objects in mind, particularly, the system cannot make people responsible for their profits and losses. Such defects can hardly be overcome within the framework of the contract system. If those problems cannot be basically solved, it will be difficult to lay a microeconomic foundation for the mechanism of economic operations combined with the planned economy and market regulation. From a long-term point of view, it is necessary to develop the reform concept of separating ownership from the right to operate, that is, to further readjust the relations between the state and the enterprise in property rights on the basis of separating ownership from the right to operate, and to separate the final ownership from the ownership of the enterprise as a legal person. The shareholding system is the proper form for such separation. People hold different views of the shareholding system. But one thing is certain, it is a big misunderstanding to equate the shareholding system with "privatization." True, conditions will not permit the implementation of the shareholding system in our region during the Eighth Five-Year Plan period because the commodity economy has yet to develop here. But this is no reason for ignoring the experimentation of the shareholding system in selected units. It is feasible to further develop the reform concept of separating ownership from the right to operate, and to vigorously experiment with the shareholding system placing workers and staff members as shareholders, with funds raised by people in various circles to build new enterprises, and with enterprises holding shares of one another. This is undoubtedly of positive significance in gaining experience and probing new ways to carry out enterprise reform.

Actively Promote the Flow of Key Production Elements and Readjust the Economic Structure—By Xie Haiping [6200 3189 1627], Senior Economist and Deputy Director of the Economic Research Center of the Xinjiang Regional People's Government

While low economic efficiency is a key factor that has handicapped Xinjiang's economic development, an irrational economic structure, inefficient use of the available resources, and poor production efficiency also constitute another important cause of low economic efficiency. Thus, during its economic development in the next decade, Xinjiang must make active efforts to promote the flow of key production elements and adjust its assets; and take gradual steps to bring about a better combination of production patterns, product mix, and enterprises' organizational structures so that we can constantly improve the economic efficiency.

The purpose of promoting the flow of key production elements and readjusting the economic structure is to maximize the economic structure, improve economic efficiency, and bring about a sustained, stable, and coordinated economic development. According to relevant departments' estimates, approximately 30 to 40 percent of Xinjiang's fixed industrial assets are now lying idle, and if one-tenth of them can be put to use through rational flow and regrouping, that would be tantamount to having an additional investment of 780 million yuan. Moreover, the overwhelming majority of enterprises in Xinjiang, both large and small, have fully equipped themselves with equipment which they are authorized to own. Thus, many specialized and precision equipment and key production elements are not fully used, causing inefficient operation. Furthermore, the unscrupulous development and redundant construction of a large number of "small" enterprises in recent years have created many economies of irrational sizes, causing huge wastes. If, through promoting rational flow and allocation of key production elements, we can correct the irrational organizational structures of enterprises, promote the cooperation of producers engaged in specialized production through dividing their responsibilities, and promote sizable production, then we can improve production efficiency, lower the production cost, and obtain good structural efficiencies. This shows that Xinjiang has a great potential for promoting the flow of key production elements. During the first two years of the Eighth Five-Year Plan period, Xinjiang must continue to adopt an austerity program needed in economic readjustments by tightening its credit and readjusting the interest rates for loans and savings deposits. The economy is still at the bottom of the valley, and the sluggish market has yet to improve; but this provides a good opportunity for us to promote the flow of key production elements and readjust the economic structure. This being the case, we should, in conjunction with concluding the second batch of contracts with enterprises, actively promote the rational flow of key production elements, individually or comprehensively, and expedite the pace of readjustment through encouraging enterprises to contract the operation of other enterprises,

merge with other enterprises, or establish enterprise groups through launching lateral cooperation.

Bring About Changes in Four Areas—by Zheng Zhenzhong [6774 2182 1813], Senior Economist and Chief of the Circulation Department of the Economic Research Center Under the Xinjiang Regional People's Government; and Liu Yanqun [0491 1750 5028], Deputy Director of the Economic Research Institute of the Xinjiang Planning Commission and Secretary General of the Xinjiang Planning Society

1. The traditional development plans aimed at increasing output value are now gradually being replaced by plans aimed primarily at improving economic efficiency. Economic construction proves that development does not rest with numerical growth alone, but with numerical growth based on the improvement of economic efficiency and performance. Growth without efficiency is the same as the lack of growth. It might even give rise to other economic problems. Thus, while drawing up the Eighth Five-Year Plan and the 10-Year Economic Development Program, we must make earnest efforts to achieve a unity of growth and efficiency and stop the lopsided pursuit of growth and higher output value, which was a tendency caused by the impact of commodity economy.

2. Efforts must be made to gradually shift the focus from the resources exploitation of the resources-technology-market to the resources exploitation of the market-technology-resources. Xinjiang is a provincial region endowed with important resources of our country. Having a foothold in exploitation of the resources which are found more abundant here than in any other region is an effective way to accelerate economic development in Xinjiang. However, because the commodity economy is underdeveloped and most people lack an adequate concept of the market in our region, more often than not, we simply had only the local resources in mind while neglecting market changes and technological conditions when we endeavored to exploit the resources here in the past. As a result, the phenomenon of blind and overlapping construction appeared while sizable economic returns failed to take shape, and it became difficult for us to turn the favorable condition of our resources to account. The practices of our economic construction proved that the favorable condition of resources is not equivalent to a favorable condition for the economy. Only when natural resources are exploited through the adoption of advanced technologies in order to meet the demands of the market can they be really turned into a favorable condition for the economy.

3. Efforts must be made to continue to promote a shift from an economy that is half closed to the outside world to one that is open to the outside world. The open policy should be implemented in all fields of endeavor in order to encourage them to have economic ties with businesses inside and outside Xinjiang. This is for the purposes of quickening the pace of "establishing economic ties with regions in the east in order to distribute products to those

in the west" and "introducing equipment and technologies from regions in the west to distribute products to those in the east," exchanging our own resources which are more abundant than those in other regions for funds, equipment, technologies, and qualified personnel needed for our economic construction; and developing various forms of economic and technical contacts and cooperation to promote economic development in Xinjiang.

4. We should emancipate ourselves from a concept that used to attach little importance to the market and change, and adopt a modern concept that is oriented to the needs of the market and the state. It is necessary for us to attach a high degree of importance to the role played by the market as a bridge to production as well as its role to orient and correct production, to overcome the past tendency in our thinking to attach little importance to the market, to draw up measures for our region's economic development through a careful study of the market demands inside and outside the Xinjiang region and at home and abroad, and to use such measures to promote economic development.

Avoid Big Ups and Downs in Economic Development—by Peng Chun [1756 4783], Deputy Head of the Department of Industry, Communications, Finance, and Trade of the Policy Research Office of the Regional Party Committee

It is necessary for us to successfully bring the strategic orientation of the course of the national economy under control in a macrocosmic sense and to make efforts to avoid big ups and downs in economic development. First of all, we must conduct an overall summing-up and analysis of the economic problems that have existed since the period of the Seventh Five-Year Plan and, in particular, the problems that have existed while the macro-economy runs its course. The outstanding macro-economic problems must be arranged in order of importance and urgency in line with the degree of their impact on the economic development and the course it runs during the period of the Eighth Five-Year Plan. A timetable should be drawn up for handling the problems that can be solved through reform in order of importance and urgency. By so doing, on the one hand, we can avoid the accumulation of the problems that cropped up during the period of the "Seventh Five-Year" Plan and that might cause too strong an explosive force and augment fluctuation in our economic development in the future; while, on the other hand, we shall be able to have a definite object in view when implementing the reform measures for the period of the Eighth Five-Year Plan, and be able to proceed step by step and in an orderly way, and improve our foresight of the economic problems that may crop up during the period of the Eighth Five-Year Plan. Second, it is necessary for us to look upon the endeavor to reform and improve the system of macroeconomic regulation and control as a strategic task for maintaining a sustained, steady, and coordinated economic development, and to tackle it as such. According to the experiences acquired and lessons

drawn from our efforts to promote economic development during the period of the Seventh Five-Year Plan, organically linking short-term expedient measures for solving conspicuous problems to long and medium-term development programs and to the thinking of the reform and open policy, and correctly controlling the strategic orientation of the macroeconomic course throughout the region to reduce planning errors constitute an important guarantee for smooth fulfillment of the Eighth Five-Year Plan. Improving the function of the system of macroeconomic regulation and control in order to coordinate it with the course of macroeconomic development in our region is an important task during the period of the Eighth Five-Year Plan. We must attach importance to this.

Meanwhile, we must pay attention to stressing the major points in our endeavor to deepen the reform, avoid overextending ourselves in our reform endeavor, and make efforts to achieve breakthroughs with practical significance on crucial issues and problems.

In Industry, Attention Must Be Paid to the Four Fields—by Qian Shoukun [6929 1108 1024], Deputy Chief Economist of the Regional Economic Commission

Three outstanding problems exist in the region's industrial development. First, the economic efficiency is declining. Second, leaders at various levels do not have a strong awareness of the necessity to strengthen the management and upgrade the technology of enterprises, and fail to pay due attention to and include this issue in their agenda. Third, enterprises seriously lack the strength for further development and the capabilities of self-accumulation, self-transformation, and self-development.

Drawing from the experiences and lessons of the Seventh Five-Year Plan and in view of the economic situation during the Eighth Five-Year Plan, we should pay attention to the following four fields of industry: First, we should upgrade the technology of enterprises; second, we should improve the management of enterprises; third, we should explore markets; and fourth, we should deepen the reform of enterprises. So long as we pay close attention to these four fields, there are great potentials for the region's industrial development.

Technological progress is the material and technical foundation on which enterprises depend for existence. It is also the only way leading to the strategic transformation from expansive to intensive management and to the modernization of industry. Upgraded technology is a prerequisite for achieving technological progress of enterprises. A very important step for improving the economic efficiency and optimizing the structure of production lies in intensifying the effort to upgrade technology. In upgrading the technology to facilitate industrial development, we should primarily update the equipment and adopt advanced technology, and this will require capital input. Therefore, the key to upgrade the technology of enterprises lies in funding. One the one

hand, we should concentrate funds to ensure key projects, seeing to it that the limited funds are really used for upgrading technology. We should also adopt advanced technology and equipment available at home and abroad to update old enterprises and the traditional industry, paying particular attention to upgrade the production technology. On the other hand, we should also explore and open up more sources for funds.

A feasible way should be the development of lateral economic ties by inducing funds from fraternal province and municipalities to increase the production of famous brand quality goods and using them to repay the investment.

Production dictates exchange, and the market provides the basic venue for exchanging products. Since Xinjiang has a limited market, most of the increased manufactured products during the Eighth Five-Year Plan will have to be sent to other places in China or markets abroad. Should we fail to explore markets or to transport the products, our industrial development will be adversely affected. The Lanzhou-Xinjiang Railway will play an increasingly pivotal role and become a major factor in the region's industrial development during the Eighth Five-Year Plan. Therefore, on the one hand, we should upgrade the technology for increasing the railway's transport capacity; and on the other hand, we should strive to explore markets. Enterprises should enhance the market concept, and study and comprehend the law governing market. They should not only keep abreast with market demands, but also be able to predict market trends so as to take the initiative to readjust product mix by developing high quality, high added-value, and high-tech products.

Properly Handle the Relationship Between Speed and Efficiency—by Liu Wenzhu [0491 2429 2691], Deputy Head of the Comprehensive Section of the Regional Statistics Bureau

In order to achieve a better economic efficiency, it is necessary to, first of all, properly handle the relationship between speed and efficiency during the Eighth Five-Year Plan. Because of Xinjiang's weak economic foundations and meager local financial resources, 72 of the region's 86 cities and counties received state financial subsidies in 1989. In order to change such a situation, local governments at all levels, overanxious for quick results, tried by hook and by crook to accelerate the development of production. After industrial production declined continually for seven consecutive months since the beginning of this year, party and government leaders at all levels have exerted great efforts to stop the decline. As a result, the production speed has quickly picked up and set monthly records for three months since September. However, such an abnormal growth rate has resulted in poor economic efficiency. The number of enterprises running in red and the volume of their deficits have increased by a big margin, while products and semi-finished products are overstocked. Speed is not unimportant. However, we should achieve a real unity

between speed and efficiency by proceeding at a pace commensurate with the improvement of economic efficiency.

Strengthen the Status of Agriculture as the Foundation—by Li Dingzhi [2621 1353 0037], Chief of the Agriculture and Animal Husbandry Section Under the Regional Planning Commission

The fact that our region has reaped bumper harvests in agriculture for 13 consecutive years has made us realize that in the next decade and during the "Eighth Five-Year Plan" period, Xinjiang must continue to strengthen the status of agriculture as the foundation [of the economy]; firmly institute concepts that favor overall agricultural development and active development of the rural economy; and adhere to the principle of "promoting comprehensive growth in agriculture, forestry, animal husbandry, sideline production, and fishery, and of conducting overall operations in industry, commerce, transport, construction, and service." It must also take the road of applying science and technology to developing agriculture, tapping internal potential, and conducting intensive operations; effectively raise overall capacity for agricultural production; gradually establish a commodity production system for agriculture and animal husbandry marked by Xinjiang characteristics, high quality, and stable and high output; and build state production bases of considerable scale for grain, cotton, sugar, and livestock products. In doing so, Xinjiang must be guided by the concept of developing water and soil resources comprehensively and of using them rationally, and focus on building water conservancy projects and transforming low- and medium-yield farmland. In particular, it must concentrate on transforming medium-yield farmland. At the same time, it must vigorously develop secondary and tertiary industries, enhance the economic strength of rural areas, and facilitate the flow of commodities in order to raise the rural commodity economy to a new level. In addition, it must gradually accomplish the strategic switch from a closed commodity economic structure to an open system in readjusting the rural industrial mix; accelerate the conversion of natural resources into commodity economic strength; make rational arrangements; and build a number of production bases for farm produce and commodities marked by high quality and stable and high output. To this end, it is necessary to rely fully on science and technology; promote and apply advanced methods in this regard; make energetic efforts to "promote agriculture with science and technology"; and use modern science and technology to spur agricultural development.

Improve Self-Service Within the Rural Cooperative Economy—by Zhang Xiaoren (1728 2400 0088), Director of the Policy Research Section Under the Regional Party Committee's Agricultural and Industrial Department

An important task in conducting reform in rural areas during the Eighth Five-Year Plan period is to improve the socialized service system in the countryside. On the one hand, it is essential to continue to foster and arouse

the initiative for practicing the household contract system. On the other hand, it is necessary to further exploit the superiority of collective and unified operations, truly institute and improve the economic system characterized by dual operations, and gradually deepen reform in rural areas. Under practical circumstances, the joint service within the rural cooperative economy is the principal component and dominant form of the entire socialized service system. It encompasses numerous functions, including organization, coordination, providing production-related service, accumulating assets, and developing resources. Its role is irreplaceable. Such service should be the focus of improvement and development during the Eighth Five-Year Plan period.

The fact that service within the rural cooperative economy plays such an important and irreplaceable role is determined by its functions as well as Xinjiang's special social and economic conditions. Because of the service, difficulties arising before, during, and after production in household operations can be resolved with fairly satisfactory results. Besides, peasants can enjoy services in many areas, including funding, technical assistance, machinery supply, and irrigation, and their diverse needs on different occasions can be satisfied. Comprehensive service with "five unified aspects" as the main feature provided by Bachu and Markit Counties is derived from the rural cooperative economy. The service, which we are promoting after reviewing, is also a product of improvement of the self-service system practiced by peasants. With the development of the commodity economy and the improvement of intensive operations in the future, peasants will inevitably grow more enthusiastic about service within the rural cooperative economy and make more and stricter demands in this respect. Therefore, we must develop this kind of self-service among peasants into a more advanced form by providing comprehensive service instead of rendering service to individual projects and by expanding coordinating efforts in production into multifaceted service, including fund accumulation and resource development, in order to satisfy the various needs of peasants in conducting household operations and in developing commodity production.

Adopt a "Three-Key, Two-Axis, Bi-Directional Emphasis" Regional Development Strategy—by Liu Jiajin [0491 3946 6855], Associate Researcher of the Economics Institute of Xinjiang Academy of Social Sciences

During the Eighth Five-Year-Plan period and the next 10 years, Xinjiang should adopt a "three-key, two-axis and bi-directional emphasis" development strategy by taking full advantage of its strong point in natural resources, the opportunity of the opening of the second Eurasian continental bridge, and the desire of various provinces and cities along the Lianyungang-Lanzhou and Lanzhou-Xinjiang Railroads to "go westward."

The "three keys" are key region, key cities and key industries. The key region is the area covering Urumqi,

Kuitun and Karamay. The key cities are Urumqi, Kashi and Yining Cities. The key industries to be developed are light, textile and food industries, machine-building and electronics industries, and petroleum and petrochemical industries. The "two axes" mean the east-west axis of development along the Lanzhou-Xinjiang Railroad (Hami-Urumqi-Alashankou) and the north-south axis of development along the Southern Xinjiang Railroad (Daheyan-Korla) and the Urumqi-Kashi Highway. The "bi-directional emphasis" means emphasis on a development in two directions—industrial development and regional development. The purpose of the development emphasis is to make the focal points stand out, solve major contradictions, concentrate all superior resources on the development of selected areas, cities and industries, and thus promote the opening up and economic development of a region. In this way, we will gradually create a large-scale economy by "connecting points to form lines and connecting lines to form areas" and rapidly expand regional development.

Different regions have different priorities in their development because they are different from each other in the distribution of natural resources and in structure of production. Generally speaking, even less-developed regions have some relatively strong points. When these regions have improved and developed their basic industries to a certain extent and given full play to a certain strong production factor, it is likely that other production factors in these regions will regroup themselves, the closed economic system there will break away from the confines, and a demand for moving outward will arise. Good agricultural harvests and successful animal husbandry production for more than a dozen years in a row, abundant natural resources, and the opening of the second Eurasian continental bridge have provided the major, objectively necessary conditions for Xinjiang's regional development. If we can attract a certain amount of foreign capital, technology and manpower, and obtain the support from the state and fraternal provinces and municipalities, we will be able to extend our regional economic development to surrounding areas along the aforesaid axes. Once such a trend is created, we will be able to connect points to form lines, connect lines to form areas, and develop Xinjiang into an important production base in China in the 21st century.

Basic Thinking for the Financial Work—by Gong Jinniu [7895 6855 3662], Deputy Director of the Regional Department of Finance and Vice President of the Finance Society

The autonomous region's financial situation will remain grim during the Eighth Five-Year-Plan period. Regional expenditures have to keep increasing at a certain rate to meet the needs of normal increase in the staff of administrative organizations, gradual increase of wages and commodity prices, and the development of production and construction. However, the sources of our revenues are limited, and it is very difficult for the central government to drastically increase its subsidies to this region. For this reason, it will be hard to overcome the

imbalance between revenues and expenditures during the Eighth Five-Year-Plan period. In order to tide over the financial difficulties and attain the strategic objectives of the autonomous region's economic development during the Eighth Five-Year-Plan period and in the next 10 years, we must do the following work well: 1) We should, following the state and the autonomous regional industrial policies and taking advantage of the autonomous region's strong points, develop more profitable key industries and products, energetically support the exploitation of petroleum and the development of petrochemical industry, and increase revenue sources. 2) We should improve enterprise management and rely on scientific and technological progress to do a good job in intensive processing, produce marketable products, and enhance economic efficiency. 3) We should make great efforts to promote commodity circulation, increase sales, and increase and improve services. 4) We should improve taxation work, collect taxes strictly according to law, and ensure timely delivery of full amount of tax revenues to the state treasury. 5) We should control the personnel increase in administrative organizations and institutions, cut back unnecessary expenses, and prevent excessive spending increase. 6) We should make great efforts to support the development of county-level economy, and help the subsidy-receiving counties enhance their ability to achieve self-sufficiency. 7) We should continue to rectify and develop financial credit institutions. 8) We should improve the financial responsibility system, continue to do a good job in implementing the contracted managerial responsibility system in enterprises, and conduct experiment on "separation of tax payment and profit delivery, contract on the basis of after-tax economic returns, and repayment of debts after paying taxes" in enterprises, so as to invigorate enterprises and ensure a proper increase in state revenue. 9) We should carry out further the financial reform of institutions and administrative organizations, and organize the collection of revenues, reduce the burden of the state, and increase the income of workers and staff members. 10) We should step up financial legislation, strictly implement financial laws, rules and regulations, enforce financial discipline, and strengthen financial supervision. 11) It is necessary to improve the training of financial, taxation and accounting cadres, promote work ethics among them, enhance their vocational ability, strengthen basic financial work, and raise the level of financial management.

Adopt a Capital Fund Strategy of "Raising Through Wide Sources, Getting From the Outside, and Managing in an Intensive Way"—by Quan Bingzhong [0356 4426 0022], Director of the Banking Institute of the Autonomous Regional People's Bank

According to the autonomous regional Eighth Five-Year Plan and 10-year tentative plan for economic development, the capital fund shortage problem will remain serious in Xinjiang in the 1990's. In order to ensure fulfillment of the basic tasks and major objectives of economic development in the new period, we should, after summing up the law of capital fund flow, adopt a

capital fund strategy of "raising from wide sources, getting from the outside, and managing in an intensive way. The concrete measures are as follows:

1. We should raise capital funds through wide sources. First of all, banks should make great efforts to raise and circulate funds by various means and through various channels, make good use of credit funds, and enhance the effectiveness of fund utilization. Second, it is necessary to actively open up and build the money market, and use the market mechanism to organize funds, guide the fund flow, and regulate the supply and demand of capital funds. Third, in financial work, we should adhere to the principle of broadening the sources of income and reducing expenditure, increase revenues, and enlarge the proportion of economic construction investment. In addition, we should strive to borrow more money from the outside, and use the borrowed money in a rational way.

2. We should actively introduce to Xinjiang capital funds from other parts of China and abroad. We should take full advantage of Xinjiang's abundant natural resources and its superior geographical location. On the one hand, we should further adopt a preferential policy to attract foreign businessmen to come to invest in either wholly foreign-owned enterprises or joint ventures, or in jointly exploiting ground and underground resources in Xinjiang. On the other hand, we should strengthen lateral cooperation with various central departments, coastal regions, and neighboring regions; develop joint operations between Xinjiang and eastern provinces; introduce to Xinjiang funds, technology and manpower from developed regions; and accelerate our economic development.

3. We should pay attention to managing funds in an intensive way. First, in overall fund management, more importance should be attached to improving the quality of investment than to increasing the amount of investment; more importance should be attached to indirect investment than to direct investment; and more efforts should be exerted to make full use of available funds than to obtain more new funds. Second, we should strive to enhance the fund-accumulating ability of the economy, step up technological transformation, raise depreciation rate, strictly conduct economic accounting, reduce consumption, increase output, and enhance economic efficiency. Third, we should readjust the fund structure in accordance with industrial policy, reduce unnecessary demand for fund, and raise the effectiveness of fund utilization.

Use the Continental Bridge and Develop Regional Circulation—Liu Xizhe [0491 1585 0772], Deputy Chief of the Planning Section Under the Urumqi Railway Bureau

How to use the Second Eurasian Continental Bridge to develop our region's economy and promote the open policy has become a hot topic. For this reason, we must conduct a specific analysis of the bridge's short-term uses. As far as relevant economic regions are concerned,

the flow of commodities along the bridge is primarily composed of three parts. The first is seaborne cargo, which consists of containerized freight from Japan and Southeast Asian countries. The second is overland cargo, which consists of goods exported and imported by provinces and regions in China. The third is regional cargo, which consists of commodities exported and imported by China's northwest region, particularly by Xinjiang. Under current circumstances, it is impossible to promote this fundamentally three-way flow of commodities simultaneously. As far as transportation is concerned, the political and economic situations in relevant economic regions and in countries through which the bridge passes have affected the competitiveness of the First Eurasian Continental Bridge, which has been in operation for over 20 years. This portends a fairly long formative and developmental process for the flow of seaborne containerized goods along the Second Continental Bridge. In addition, countries and economic blocs that have benefited from the First Continental Bridge will not easily forego the benefits they have secured. Hence, the flow of seaborne commodities along the Second Continental Bridge will be slow in generating benefits. Moreover, overland circulation will be restricted because of limited transport capacity in China. In particular, it will be seriously restricted by limited transport capacity at the western end of the Lanzhou-Lianyungang Railway and the eastern end of the Lanzhou-Urumqi Railway. In contrast, there are excellent conditions for the relatively quick formation of a regional flow of cargo. First, Xinjiang abounds in natural resources and raw and semifinished materials for light and textile industries. Second, short-term transport capacity is greater than transport turnover along the Lanzhou-Urumqi Railway and the newly built Western Railway, both of which fall under Xinjiang's jurisdiction. Third, Xinjiang is in a vantage point because freight stations opening to the West are situated within its boundaries. This shortens the transport distances and greatly facilitates efforts to organize, load, unload, and transport cargo. Therefore, as far as utilization of the continental bridge is concerned, regional circulation within Xinjiang will produce the quickest results over the short term. The question is how we should capitalize on this opportunity.

There are roughly three ways to promote the early formation and development of a regional flow of cargo within Xinjiang. The first is to exploit the autonomous region's natural resources in exporting goods; to conduct barter trade in importing materials and funds badly needed by Xinjiang at the earliest possible date; to rapidly develop processing industries that are capable of yielding speedy economic results and are conducive to the formation of a regional flow of cargo; and to create a beneficial circle on a small scale. Under circumstances impeding the formation of overland circulation, the second approach is to join forces with and invite fraternal provinces and regions to invest in Xinjiang and build some "short, level, and speedy" [short period between the time technology is developed to the time it

is used in production; a technological level that is suited to medium- and small-sized enterprises as well as township and town enterprises; and speedy economic results] processing industries that are closely related to the formation of a regional flow of cargo; and to exploit the autonomous region's resources and use the funds of other provinces to promote regional circulation in Xinjiang and to export cargo. This, in effect, amounts to turning overland circulation into regional circulation to benefit the autonomous region. The third is to attract investment in Xinjiang from various Southeast Asian countries; to establish a variety of fairly large processing industries, including light, textile, and fur industries; to study the possibility of partially turning seaborne containerized circulation into a regional flow within the autonomous region; to try every means to combine the three flows into one; and to enable the Second Continental Bridge to go into operation at the earliest possible date and to produce remarkable results.

Focus on Fostering "Links"—Shao Boheng [6730 2672 1854], Chief of the General Affairs Section Under the Regional Economic Cooperation Office

In fostering a sense of cooperation during the Eighth Five-Year Plan period and in the next decade, we believe that we should set our goals, tasks, and focal points strictly on the basis of the autonomous region's economic development plans, major and difficult projects in the region's economic construction, and the need to improve economic efficiency. It is necessary to focus on fostering "links"; to "establish economic ties with regions in the east, distribute products to those in the west, introduce investment from abroad, and establish lateral ties at home"; and to work hard to achieve sustained, stable, and coordinated development in the autonomous region's economy.

To this end, first of all, it is necessary to fully capitalize on and give full play to the role of the favorable condition of resources in the autonomous region in a bid to turn the superior resources into funds, technology, and badly needed means of production. Second, the method adopted must be correct. We must persist in proceeding with both large and small projects. While carrying out large development projects, we must also pay close attention to the "short, level, and speedy" projects that produce quick results at less cost. We must persist in "walking on two legs" [referring to a series of policies for balancing the relations between industry and agriculture, between heavy and light industry, between enterprises run by the central government and those run by local authorities, and so forth]. While establishing economic ties with those who are far away from us, we must not forget our close neighbors. We must insist that such economic ties be mutually beneficial, and we must not be afraid of suffering immediate losses in order that we may make profit and strive for development in the future through concession of immediate interests. Third, the appropriate policy must be drawn up and implemented to follow up on the measures mentioned above. The autonomous regional people's government is suggested

to revise the preferential policy on "establishing lateral ties at home and introducing investment from abroad" in accordance with the relevant laws and regulations as soon as possible, and request the state to grant to Xinjiang the same treatment as that enjoyed by the joint-venture enterprises in coastal cities open to the outside world in introducing foreign funds such as are provided by relevant regulations. Fourth, it is necessary to rationalize system. It is hoped that the autonomous region will reform its existing system of "establishing ties at home and introducing investment from abroad" and improve the overall planning in order that it may meet the needs of "establishing economic ties with regions in the east and distribute products to those in the west." Fifth, it is necessary to do a good job in exchanging and circulating goods and materials. We must use the products which are readily available in our region but not so in other regions to exchange for those means of production and livelihood that the autonomous region cannot produce and are in want in order that we may serve industrial and agricultural production. Meanwhile, it is necessary to coordinate with relevant departments to sponsor trade fairs similar to the type of the Guangzhou Trade Fair, and to recruit our fraternal provinces and municipalities to participate in them. It is necessary to organize enterprises to participate in trade fairs held in other provinces and municipalities every year in a bid to explore more outlets and promote sales of our region's products to other markets inside China and abroad.

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[Text] Take Advantage of the Macroclimate to Improve the Microenvironment—by Wang Jie [3769 2212], Director and Senior Economist of the Xinjiang Regional Institute of Financial Studies

When we look ahead, we can see that the political and economic macroclimate at home and abroad during the next five-year period will be highly favorable to Xinjiang's social and economic development.

First, with the development of reform, the attainment of economic readjustment objectives, and the improvement of the industrial structure and production layout during the five-year period, especially after the demarcation of the economic development zones along the Zhu Jiang basin and the Bohai Sea, and in the western part of the country, we can see that the strategy for China's economic development has shifted toward the river basin, the Bohai Sea, and the west from the eastern, central, and western parts of the country. In other words, while the strategy for coastal economic development remains effective, there is now a new strategy of moving toward the Bohai Sea, the Chang Jiang, and the western frontier. Since the economic development strategy is slanted toward the frontier areas, it certainly will serve as a great impetus to the economic development in the west, especially Xinjiang.

Second, the correct basic thought of the state's Eighth Five-Year Plan and 10-Year Program is totally in line

with the needs of actual economic development of China and Xinjiang. This being the case, Xinjiang's economic construction will be in step with the rest of the country.

Third, the State Council has decided to continue to increase its financial and material assistance to impoverished areas. This is very beneficial to the economic development of Xinjiang, a frontier region inhabited by people of minority nationalities.

Fourth, the future of Xinjiang's oil development is bright. Because of this, the state should provide special support for Xinjiang's oil development during the Eighth Five-Year Plan period.

Fifth, the completion of the second Asia-Europe continental bridge will substantially expedite Xinjiang's endeavor of opening to the outside world.

Sixth, price reform will be beneficial to the development of agriculture and energy industry and to the production of raw and semi-finished material; this will serve as a tremendous impetus to Xinjiang's agricultural growth and development of resources.

This shows that there are very favorable conditions for Xinjiang's development and construction and that the region's economic growth will accelerate during the next five- to 10-year period. However, since problems relevant to the distribution of financial resources remain unresolved, Xinjiang will continue to be unable to support itself financially. With this, as well as heavy burdens in upgrading technology in enterprises, low economic efficiency, and limited new financial resources, Xinjiang can ill afford its construction needs. Thus, while Xinjiang's economic growth may accelerate during the Eighth Five-Year Plan period, the region, especially county-level areas, may have financial difficulties. This being the case, Xinjiang must from now correctly handle the relationship between ensuring the basic needs of the people and construction on the one hand and achieving growth and efficiency on the other. Moreover, on the basis of rationally distributing its resources, Xinjiang should strive to raise its economic efficiency and explore more financial resources. Meanwhile, Xinjiang must also pay attention to ensuring its stability, development, and reform.

Actively Develop the World Market—by Peng Mao [1756 3847] from the Planning Office under the Xinjiang Regional Department of Economic Affairs and Trade

The market for Xinjiang's export goods is quite small; there is only a very small number of large, regular buyers of Xinjiang goods. Little progress has been made in achieving the strategy of "establishing ties with inland China in the east, exploring westward outlets, purchasing from abroad, and slanting westward." Instead of broadening the market in East Asia (the Gulf areas) and East Europe, the promising market there has shrunk substantially owing to the Gulf crisis and changes in East Europe.

Thus, I propose that, on the basis of consolidating and developing the production of traditional exports, Xinjiang should strive to develop new products, develop exports of processed goods, and gradually improve the mix of exports. While we should continue to consolidate and develop the market in Japan, Hong Kong, Macao, Europe, and America, we should gradually broaden the market by actively developing the market in the Soviet Union, East Europe, East Asia, Taiwan, and South Korea. While developing all forms of export trade, we should prioritize the promotion of spot exchange trade. At the same time, under the policy to encourage active, open, and reliable development, we should make efforts to develop border trade and compensatory trade, and exports produced by foreign-funded enterprises in an effort to bring into play the initiative of ordinary trade, local border trade, and small trade conducted by border towns.

At the same time, supportive measures should be adopted, such as relaxing restrictions on barter trade along the border. People should be allowed to deal in small amounts of goods in the second category. It is necessary to speed up the pace of shaking off poverty and becoming prosperous in our border areas. We should adopt preferential policies which are different from those adopted in coastal developed areas but which are conducive to the development of Xinjiang. The policy on productive areas should be implemented to the letter. Priority should be given to the main production area of certain products in planning, assigning quotas, and issuing export licenses in order to improve product quality, to increase export volume, and to prevent people from rushing to purchase such products.

Make Rational Arrangements for the Distribution of Industries—by Zhou Congzhou [0719 1783 6856], associate research fellow of the economics institute of the regional planning commission

I think that we should persist in the principle of overall consideration and all-around arrangement and gradually rationalize the distribution of industries in the Gobi Desert and oases. Industrial foundation in the region is weak, and the majority of industries are small enterprises. Such small enterprises are scattered throughout the region, which is in the initial stages of industrial development. It is necessary to combine big, medium, and small enterprises; to develop state and collective enterprises simultaneously; to encourage the development of Chinese-foreign joint ventures, cooperative enterprises, and exclusively foreign-owned enterprises; and to vigorously support the building of village and town enterprises, especially the development of industrial enterprises in remote autonomous counties, districts, and townships inhabited by minority nationalities. The commodity economy should be developed according to favorable conditions in various oases, with large- and medium-sized key enterprises taking the lead and small enterprises participating of their own accord. With a rational, planned division of work, suitable

technology, and convenient cooperation, economic production in oases should be under intensive management and should be carried out on a moderate scale.

Several Suggestions on Opening Wider to the Outside World—by Chen Shijiao [7115 6108 2403], associate research fellow of the Central Asia Institute of the Xinjiang Academy of Social Sciences

First, it is necessary to formulate preferential policies and to further develop lateral economic ties. The second big land bridge between Asia and Europe has opened. The quick development of our economic ties with the West depends on development of our economic ties with the East. Xinjiang has made gratifying achievements in developing its economic ties with the East in recent years. Judging from the current situation, however, the scope and scale of such economic ties are not large enough, but there is great potential in this regard. According to relevant data, the number of projects in our economic ties with the East is equivalent to that of developed zones. This falls far short of our requirements for opening wider to the outside world. We should change this situation as soon as possible and strive to develop our economic ties with the East.

Second, we should make plans for the development of exports and refrain from taking action with only short-term objectives in mind.

Our region has no strategic plans for the development of exports. In most cases, action is taken only with a short-term objective in mind. In the changing international market, commodities must be competitive. Therefore it is necessary to develop new products and new varieties rapidly and to ensure that they are of marketable quality. Plans for exports should be able to play a role in promoting export trade.

Third, efforts should be made to readjust and improve the mix of exports and to expand the marketing network. Judging from the current situation, it is difficult to make big changes in the export mix in a short time. It is therefore necessary to vigorously create conditions for a planned change from the export of primary products, which are mostly raw materials, to the export of mostly industrial products and from roughly processed products to finished products. Efforts should also be made to consolidate and develop the export of traditional, famous, special, and local quality farm and sideline products.

Take Advantage of Local Strengths and Strive for New Stages—by Shen Enhong [3947 1869 1347], Director of the Department of Foreign Economic Relations Under the Regional Planning Commission

Xinjiang's efforts to open to the outside world have entered a new stage. After the opening of coastal ports, cities, and special zones in southeast China to the outside world, border cities in western China are also opening to the outside world in conjunction with the progress of reforms in the neighboring Soviet Union and

Mongolia. The completion of the second Asia-Europe continental bridge has created even more favorable conditions for opening Xinjiang to the outside world; this will upgrade Xinjiang's opening up endeavors. There are, however, certain unfavorable factors. They include Xinjiang's weak industrial foundation, inferior but expensive industrial goods, inadequate financial support from the government, and shortages of proficient personnel, as well as the region's weak infrastructure, such as inadequate energy supplies, and poor communications and telecommunications services. This being the case, some important tasks facing us today are correctly assessing the situation, making practical judgments and choices in line with our opportunities and challenges, adopting effective principles and measures, and drawing up the best plans and measures through which Xinjiang can achieve an economic takeoff and open wider to the outside world. To this end, Xinjiang's open endeavor should from now on follow this guidance: following the guidelines of the Fifth Plenary Session of the 13th CPC Central Committee and the regional party committee's strategic concept of building up Xinjiang, Xinjiang should "open all sectors to the outside world, expand eastward, explore westward, achieve an economic takeoff in southern and northern Xinjiang, revitalize border trade, bring in technology from the outside world, establish ties with inland areas, and enliven the export-oriented border trade."

Specific measures for achieving these objectives should include improving the quality of export goods; improving the mix of export goods; increasing economic efficiency and holding down the cost of export goods by streamlining operation and management; making constant efforts to improve the investment environment and the operation of the existing foreign-funded enterprises so as to attract more direct investment from abroad; and training more proficient personnel needed to open Xinjiang wider to the outside world.

Stability Provides Highest Socioeconomic Efficiency—by He Fulin [0149 1381 7792] of XINJIANG RIBAO

I am immensely enlightened by your expert observations. I would like to share my views on stability. Of all priorities, stability is the most important; among all forms of efficiency, stability provides the highest socioeconomic efficiency. The principle is very simple: all plans and programs are of no avail if our society is chaotic. Social stability is the basic priority we must consider when we draw up the 10-Year Program and the Eighth Five-Year Plan.

People in ancient China realized that "the destiny of the state is more important than the destiny of individuals." It is a simple truth that, the country prospers its people prosper too. Xinjiang and our socialist motherland share the same destiny, and the destiny of each and every one of us is closely linked with that of New China. In Xinjiang's modern history, national separatists once staged a farce of establishing an "Islamic Republic of

Eastern Turkistan." Although this farce ended shortly after it began, people of all nationalities, under the brutal rule of the handful of national separatists, went through all forms of humiliation and oppression. People lost their homes, the wilderness was strewn with people dead from starvation, the land was uncultivated, and the market was deserted. Not only were the Han people humiliated, the fate of minorities was equally tragic. Why was the fate of people of all nationalities so tragic? That was not because of the schemes of the goddess of fate, it was because old China was poor and weak and the "Islamic Republic of Eastern Turkistan" was no good. Why is it that, after the founding of New China, people of all nationalities have enjoyed a happy life? It is not because people are luckier but because our socialist motherland is good. Historical facts show that only the CPC can lead our socialist motherland and make sure people of all nationalities are prosperous and happy. If Xinjiang is beset by chaos and divisive activities, our motherland will become poor and weak, Xinjiang will not be able to enjoy prosperity (it will likely become a colony of imperialists), and people of all nationalities will not have happiness.

Because of the pandemonium during the decade-long "Cultural Revolution," we Chinese people lost the golden opportunity to achieve an economic takeoff, the direct losses exceeded 600 billion yuan, the national economy was verging on total collapse, and the gap between China and developed countries widened. We should always remember this painful lesson. The whole party, the whole nation, and people in society as a whole should join hands to condemn those who conspire upheaval and divide people of various nationalities.

Stability is the highest interest of people of all nationalities. Stability should prevail in all sectors. Thus, we must consider stability first when we consider all other issues, such as price reform, economic readjustments, bankruptcy of businesses, wage reform, and employment, and of course the five-year plan and 10-year program. When we consider price adjustment and reform, we must consider whether the masses can accept them psychologically. When we proceed with economic readjustments and permit businesses to go bankrupt, we must realize that joblessness will increase and proper arrangements should be made for the jobless people. Wage reform and jobs are matters having a direct bearing on the vital interests of hundreds of million of people; thus, such issues must be handled carefully and appropriately, and not rashly. We should make great efforts to expedite our reform and openness projects on the premise that our society is stable.

FINANCE, BANKING

Shanghai Forum Targets National Banking Reform

91CE0337A Beijing JINGJI RIBAO in Chinese
8 Jan 91 p 3

[Article by He Xudong (6320 2485 2639): "Thoughts on Future Banking Reform—A Review of the Key Items Covered at the Conference To Discuss China's Banking Reform"]

[Text] At the end of 1990, the China Banking Institute invited public figures from China's banking circles to Shanghai for a Conference To Discuss China's Banking Reform. The participants included over 40 people, such as Zhou Zhengqing [0719 2973 1987], a vice president of the People's Bank of China, Zhou Daojiong [0719 6670 3518], president of the People's Construction Bank, Lei Zuhua [7191 4371 5478], a vice president of the Bank of China, Dai Xianglong [2071 4161 7893], general director of the Communications Bank of China, Hong Yuncheng [3163 0336 2052], president of the China Trust Bank of Industry and Commerce, the key leaders in the Shanghai Finance Department, and Chinese banking scholars, such as Professor Huang Da [7806 6671] and research fellows Yang Peixin [2799 1014 2450] and Zhao Haikuan [6392 3189 1401]. Liu Hongru [0491 7703 0320], a vice minister of the State Restructuring of the Economic System Commission and president of the China Banking Institute, chaired the conference and carried out an in-depth discussion with the various banking authorities on the following two aspects of the key topic of how to suit banking reform to the needs of combining economic planning with market regulation.

I. An Evaluation of the Past 11 Years of Banking Reform, and Current Banking Problems

The banking specialists noted unanimously that the past 11 years of banking reform have moved in the right direction, and their successes should be fully affirmed. While certain reform problems still exist, they are not ones of orientation. Some comrades commented that the real problem is the slow pace of reform in the last two years, which has affected the overall economic situation.

China's major current banking problems are as follows:

1. How to suit the banking system to the needs of combining economic planning with market regulation: Some comrades pointed out that the banking system is now developing in the direction of strengthening vertical management and weakening lateral financing. Moreover, they felt that strengthening vertical control was bound to upset lateral financing and make it hard to turn the economy back on. Others remarked that market forces have basically not yet been established in China's banking system. These comrades went on as follows: In order to adapt our banking system to market regulation, it will be necessary to commercialize special banks. As substantive progress has not been made in recent years in commercializing special banks, and policymaking has been confused with business operations, the conflict of soft credit putting the squeeze on hard credit or vice versa has often occurred in credit operations, making it hard to ensure the necessary credit funds. Banks have sometimes been forced to depart from the track of market forces, revert from "true economic entities" to their former position in "everyone eating out of one big pot," and leave hard credit gaps, which has forced central banks to put too much currency into circulation.

2. Macroeconomic regulation and control of banking: Some comrades noted that macroeconomic regulation and control by central banks is too weak in areas where it should be strong and too rigid in areas where it should not be so strict, with not only boxes, but checks within them too. They said that the current problem is overcontrol and underregulation. Others pointed out that macroeconomic regulation and control difficulties are also related to unreasonable control regulations on enterprise operating funds.

3. The special banking system: Some comrades noted that the current special banking system contains the following four major conflicts: 1) a conflict between the socialization of production and the static division of labor in financial institutions; 2) a conflict between the growth of market forces and multi-level control by banks; 3) a conflict between standardized management of financial institutions and the dual functions of special banks; 4). a conflict between state ownership of special banks and the coexistence of diversified economic forms and the existence of regional differences. These conflicts are more glaring in coastal open zones. Others remarked that special banks are now a hodgepodge of policy and commercial banks, with neither enterprises nor financial institutions operating as true economic entities. They said that in our current special banking system, lower level banks are actually still eating out of higher level banks' "one big pot," which leaves them unable to develop either strong self-restraint mechanisms or the necessary self-growth capabilities.

4. The relationship between banking and government: Certain comrades commented that both central and special banks lack the proper decisionmaking power. They said that the lack of decisionmaking power makes it hard for central banks to bring their macroeconomic regulation and control roles into full play, or for special banks to implement credit principles or realize market regulation, and the current situation of banks "all eating out of one big pot" facilitates administrative interference in banking operations.

II. Issues Involved in the Deepening of Banking Reform

1. Reform Directions and Advances

Some comrades pointed out that future reform must move in the direction of developing markets, and that utilizing market forces is not equivalent to either bourgeois liberalization or anarchy. Others remarked that banks, and special banks in particular, must establish banking mechanisms that conform to the needs of market regulation, and that these banking mechanisms must be realized through the commercialization of special banks. Yet others noted the following problems in the field of banking that urgently need to be resolved: 1) The relationship between stability and growth must be handled correctly to prevent sudden fluctuations. Thus, in order to resolve the problem of incomplete reforms and settle the relationship between banking and finance, it will be necessary to improve enterprise operating fund control regulations and resolve price reform problems. 2)

Banks must be allowed to develop self-growth and self-restraint mechanisms. 3) Credit fund efficiency must be improved, and credit fund turnover must be speeded up. 4) Money markets must be developed steadily, and bonds must be sold.

As to future banking reform advances, some comrades commented that banking reform must be carried out with initiative, and that certain new reforms, special banking reforms in particular, should be aimed at resolving existing conflicts. Others proposed that reforms should be carried out in small, steady, and continuous steps. Many others noted that fiscal policy issues must be resolved along with banking reforms. They felt that as many banking problems are linked to fiscal issues, immersing ourselves in balancing the current year's budget alone, without studying ways to improve enterprise efficiency, would increasingly reduce sources of revenue.

2. Special Banking Reform, and Separating Policymaking From Management Operations

All of the participants confirmed the need to commercialize special banks. Some comrades pointed out that the commercialization of special banks is actually a way to bring market regulation forces into the field of banking, and will be of key importance in combining economic planning with market regulation. Others indicated that the key problem in commercializing special banks is the confusing of policymaking with management operations. They felt that this confusion is not only making commercialization difficult and making it impossible to develop self-growth and self-restraint mechanisms, but is also putting macroeconomic regulation and control in a passive position. Thus, the participating delegates held very rewarding discussions on particular issues, such as distinguishing policymaking from management operations, and the feasibility of finding fund sources for, discounting, and setting up policy banks for, policy-mandated loans.

3. Ways To Enhance Macroeconomic Regulation and Control by Central Banks

Certain comrades suggested that central banks should discontinue direct loans and profit retention, and focus their efforts on enhancing their macroeconomic regulation and control. As to macroeconomic regulation and control, some comrades remarked that the primary need is to clearly distinguish public finance funds from banking funds, without which it would be difficult for improved methods to be brought into full play. As to macroeconomic regulation and control methods, some comrades favored combining direct and indirect regulation and control to enhance indirect regulation and control, which would enhance macroeconomic control while stimulating microeconomic activity.

4. Developing Stock Markets in China

Certain comrades noted that while it is necessary to use the traditional commodity economy form of selling

stocks and bonds to open up a new direct public fund-raising channel as a supplement to our planned economy, in order to change our old fund supply system of centralized banking and finance, a socialist stock market should be essentially different from a capitalist stock market, in that it should be an arena for fund-raising instead of a paradise for speculators. They continued this line of thought as follows: Thus, our stock market should have a complete set of management methods and sound laws and regulations. Until we have acquired successful experience in running stock market pilot projects, all areas should not rush headlong into setting up stock markets. Moreover concerned leaders must not totally repudiate stock markets when certain errors or problems occur, must guard against administrative interference, and should maintain a stable policy.

Improvements Needed in Flow of Industrial Funds

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[Article by Ye Jinsheng (0673 6855 3932), Liu Zhongqiao (0491 0022 2890), and He Di (0149 3321): "The Current Stand of Industrial Fund Operations and Possible Improvements"]

[Excerpts] [passage omitted] I. The Pattern of Fund Movement Guided by Credit

[passage omitted] Following the institution in 1978 of the enterprise fund system, which prescribes that enterprises may retain an amount of 5 percent of their total personnel payroll from their profits as an enterprise fund, the enterprises have for the first time been provided with a financial resource completely at their own disposal. Beginning in 1983, the management of the circulating fund of enterprises was transferred from the financial authorities to the People's Bank, which was a change of the former system whereby funds needed by the various industrial sectors for production and as circulating funds would be allotted to them free of charge by the financial departments, and the banks would only provide temporary loans for above-quota procurement and settlement funds, and would provide the enterprises with most of their needs of production and circulating funds in the form of credit. This change created a pattern of fund movement guided by credit. Compared with the nonreimbursable allocated funds that came through the sole financial channel in the past, the pattern of fund movement that is guided by credit allows for greater independence of choice in the areas of fund supply and use. It strengthens the enterprises' overall recognition of funds' role in "utilizing credit—developing production—pursuing profit." It is indeed an effective way to alleviate the fund shortage, and is beneficial for the development of the commodity-currency relationship in China. Looking at the situation at Wuhan, we see that in 1983, when the management of circulating funds was transferred, independent funds of state-budgeted, state-run industrial enterprises (such funds comprising allotments by state finance and accumulations by the enterprises themselves) accounted for only 34.6 percent of the

norm-prescribed circulating funds, while enterprises had to rely on bank loans for the balance and the above-norm fund requirements. Credit funds became a powerful financial support for enterprises during their normal course of production.

For the last few years, following the progressive development of industrial production, the proportion of investments in industry steadily increased, industrial loans greatly increased, and industry's pattern of fund movement guided by credit was, on the one hand, much strengthened, becoming an important component of the macroeconomic regulation and control exercised by the state; but, on the other hand, it also displayed in its actual operations contradictions to the speed-oriented economy and certain weaknesses in the pattern itself.

1. Enterprises have become increasingly more reliant on credit funds; as a result, banks find it now impossible to support, on their own, the whole structure of industrial production, which has been growing enormously. [passage omitted]

By 1989, circulating fund loans provided by banks throughout the country accounted for over 70 percent of the total circulating funds in all enterprises. Looking at conditions in Wuhan, we see that after management of enterprise circulating funds was transferred in 1983, municipal finance abolished the free-of-charge circulating fund subsidies to enterprises, amounting to 10 million yuan annually. A change was then also made from allotment by public finance to having enterprises raise all subsidiary circulating funds themselves that are needed for investments in fixed assets as well as for renovating and updating their equipment. In the actual operations, the enterprises then relied on supplementary free circulating funds by merely transferring 10 percent from their production development funds annually, which was by far insufficient to meet their needs. As the scope of production widened, the proportion of their own funds in state-budgeted industrial enterprises—only 31.3 percent—had declined 3.3 percent by 1988 as compared with 1983; in 1989 it again declined 4.6 percent. Within the total circulating funds, the proportion of their own circulating funds was only 26.7 percent. Such being the case, demands on banks for large loans were made. For each 100 yuan of sales income, the demand for loan funds increased year by year; it was an average of 14.8 yuan during the 1979-1983 period, an average of 20.3 yuan during the 1984-1988 period, and it rose to 23.8 yuan in 1989. In 1989, circulating fund loans granted by all banks throughout the municipality increased 1.84 billion yuan, which was an increase of 495 million yuan over that of 1988, while savings deposits increased only 1 billion yuan. This fact added to the burden on the specialized banks in their turnover of funds, and widened the disparity between their large loan account and the savings deposits received. As bank funds became exhausted, there was no other way than to borrow from the central bank, while the enterprises as one body still continued to complain of shortage of funds.

2. The savings deposit mechanism is the only foundation for the pattern of fund movement guided by credit.

Analyzing the source and composition of bank funds, we see previously they had mainly been deposits by public finance and enterprise deposits. In 1978, government savings deposits had accounted for 60.3 percent, enterprise deposits for 34.9 percent, and savings deposits by private citizens for only 4.8 percent of all bank deposits. Following economic restructuring and increased private earnings in recent years, deposits by private citizens, government, and enterprises in 1986 had been 35.6, 32.2, and 32.2 percent, respectively, resembling the three equally long legs of a tripod. In 1989, deposit by private citizens shot up rapidly to a share of 62.7 percent of the total and became the main source of bank funds. In 1989, loans of every kind throughout the country increased 185 billion yuan (loans of industrial circulating funds increased 70 billion yuan). Of this sum, 125 billion yuan was supported by savings deposits. The disparity between loans and deposits was mainly made up by the issue of bank notes. However, under the restraint exercised by the low efficiency of the industrial enterprises, the issue of more currency than can be justified by the state of the economy increases the chances of economic stagflation. For these reasons, the increase in the currency issue must not exceed the economic growth rate and the level of commodity prices. The disparity between deposits received and credits granted may only be reduced by expanding the receipt of savings deposits. The only way to achieve this is to expand savings deposits, to increase credit investments, to raise fund-use efficiency and enterprise efficiency, thereby increasing enterprise and private citizen incomes and their deposits, and using the savings mechanism during a favorable cycle to promote a pattern of fund movement guided by credit.

3. The behavior of specialized banks has become seriously administrative in nature; the economic policy conceals the economic interests of monetary enterprises.

The fundamental attributes of credit are repayment and interest. Entities engaged in monetary business operations derive their monetary profits from the difference in interest granted on deposits and interest charged for loans. However, for quite some time, due to economic stringency, we often only paid attention to how useful specialized banks were in implementing state policy, and to how the relationships between enterprises, specialized banks, and the state were manifested as a "lack of aid," an "abundance of aid," or "the giving of aid." This led specialized banks to conduct business in a strictly administrative manner. According to a statistical survey, at least one-fifth of the huge amount of loans granted by specialized banks to China's industrial enterprises cannot be recovered. The policy-engendered losses of industrial, commercial, and foreign trade enterprises, which public finance cannot compensate for, and for which bank loans have come under pressure, amount to approximately 400 million yuan in Wuhan alone. [passage omitted]

At present, as the business conditions of enterprises are rather unstable and investment risks are fairly large, social investments of any kind have, comparatively speaking, diminished. Due to the slowdown in restructuring, also due to the failure, so far, to make full use of effective methods, such as the shareholding system, to concentrate social funds, the state has been forced to rely solely on the one channel, the banks, to provide enterprises with funds. However, the results of working in this manner have been: A large part of the credit funds have settled in enterprises because of unsatisfactory circumstances; industrial credits are unprofitable propositions, and after the banks have undertaken responsibility to engage in this business, it is again the state that will have to make good all bank deficits. In the long run this will be just too heavy a burden for the state and banks. It is therefore necessary to energetically restructure the economy and raise economic returns, to institute at the same time reforms in the credit investment system, to arouse enthusiasm for social investments, activate all investment channels, and have bank credits truly become the dominant force in diversified social investment activities, as it is also necessary to avoid a development toward the dilemma of the proverbial "sole way up Huashan Mountain."

II. Characteristics of Fund Operations Since Instituting the Economic Improvement and Rectification Policy

[passage omitted] To cool down the overheated economic atmosphere and prevent a bloated "colossus" of an industry, the state adopted a policy of fund retrenchment, which, we must say, was absolutely necessary. However, to be effective in the prevailing economic environment, a policy of retrenchment must at the same time pursue development in the following two directions: First, there has to be a compulsory readjustment of the production structure in industry, and necessary preparations have to be made to have the economy undergo a readjustment of the organizational structure of enterprises, a "survival of the fittest" among enterprises, and it will also have to endure the labor pains of a reform of the labor employment system. Effective fund investment must not be a matter of "scattering pepper," but must fearlessly pay the price and get right through to the very arteries of structural readjustment. Second, at a time of retrenchments in currency circulation and credit funds, it is necessary to accelerate the reform of the investment system, accelerate the importation of foreign capital, open up and enliven all investment channels of society, make full use of all forms of asset concentration, e.g. institute the shareholding system, develop fund markets, also broaden opening up to the outside world and utilize the "idle power" of domestic capital and the "foreign power" of international funds, to make up for the prevailing shortages of credit funds. It is regrettable that there had been no evident progress during the first stage of economic operations, neither in the restructuring of enterprises, nor in the reform of the investment system, so that the policy of retrenchment, as successful as it was in reducing currency issue and bringing down price

inflation, was not at all a complete success, it was much like going into battle with only one isolated force.

During the intensive implementation in 1989 of the policy of economic improvement and rectification, fund operations have shown the following characteristics:

1. Simultaneous reduction of currency issue and rise in commodity prices.

Since 1983, currency issue has exceeded economic growth, and cash accumulation has sharply increased, so that by the end of 1989 currency in excess of economic growth accounted for 26 percent of the total currency in circulation, and had thereby become the major factor in the rise of commodity prices and in the devaluation of the currency. During 1989, the very effective implementation of China's currency retrenchment policy had 19 billion yuan less brought into circulation than planned and absorbed some of the currency that in preceding years had been issued in excess of economic growth. However, vestiges of excessive currency accumulation still exist, and this caused commodity prices continue to rise in 1989, but more slowly than in 1988, with the index rising by 17.8 percent, which is more than the 12.4 percent rise in this year's nationwide staff and workers wages and more than the 12.6 percent increase in average income of the urban population.

2. The initial retrenchment of credit volume was followed by a relaxation, then later by a simultaneous inflation with slow increases in industrial production and declining returns from fund utilization.

During the first three quarters of 1989, loan volume was curtailed and money became tight. During the period from January to August, circulating fund loans and industrial circulating fund loans increased by 37.2 and 9.7 billion yuan less than in the preceding year. During that period of time, enterprises, influenced by a variety of factors, did not adapt to the reduced credit volume by transforming their production methods and raising economic efficiency, but shot back against "retrenchment" by slowing down production, increasingly tying up funds in manufactured goods, and allowing much of the credit funds to become hopelessly tied up. To prevent a further decline in industrial production and to break down obstructions in fund circulation, loan restrictions were relaxed, starting in September, and the central bank arranged for a large amount of funds to be released to the enterprises to stimulate business operations. However, the grim situation of industrial production had still not abated, so that the state and the banks had to open up with credits to large- and medium-size enterprises during the fourth quarter. In 1989, the amount of industrial circulating fund loans for the year had increased by 70 billion yuan, an increase of 22.37 percent over the preceding year, constituting the third peak of loans granted during the 1980's. In this figure, the fourth quarter increase had been 38 billion yuan, or 54 percent of the total year's increase. However, the effect of so rapid an expansion of the loan volume did not fully come

up to expectations. In 1989, output value of the whole country's industry of higher than village level (not including village industries) was 6.8 percent, which was 11 percentage points below the figure for the previous year and indicated a decline in economic efficiency of the enterprises. State-budgeted industrial enterprises achieved an increase of only 0.2 percent of profits and tax revenue over the previous year. Their turnover of norm circulating funds was 11 days longer than the previous year, and for an average 100 yuan of funds profits and tax revenue declined 2.58 yuan, creating the abnormal phenomenon of huge increases in loans and a distinct decline in production and efficiency.

3. Increases in the incomes of employees, workers, and citizens declined while savings by private citizens simultaneously rose to record heights.

During 1988 and 1989, real wages of staff and workers declined during these two years in a row, and if a further deduction is made in consideration of the commodity price increase factor, there was a 4 percent decline in the average wages of staff and workers last year compared with the previous year, while the aggregate staff and workers payroll declined 2 percent. In 1989, the nationwide average per capita income of the urban population was 1,260 yuan, which was 12.6 percent over the previous year's figure, but if a deduction is made in consideration of the commodity price increase factor, it had declined 4.4 percentage points. Real cash income declined, stagnation set in in the sale of commodities that at one time had been the target of panic buying, commodity prices increased, and banks raised interest rates for deposits; the effect of all these diverse factors was that citizens soon became increasingly aware of the economic benefit of the guaranteed real value of cash deposits and increasingly sought the benefit of earning interest. In 1989, deposits in the urban and rural areas of the whole country increased by 133.4 billion yuan, savings deposits of private citizens increased 35 percent compared to the previous year, creating an all-time record, and the savings deposit rate went up to as high as 29.15 percent, which was 11 percentage points higher than in the previous year.

Since the start of this year, the state addressed the economic difficulties of the present time by adopting a series of measures of microeconomic adjustments, and, looking at the economic conditions during the first half of the year, we see that there is indeed a turn for the better in industrial production, creating a very gratifying situation, but there still exist some problems which should cause us to ponder and explore:

1. The effectiveness of increased loans is still not yet ideal. Since the start of this year, the state has relaxed in the severity of its retrenchment and issued large amounts of industrial circulating fund loans. At the end of May, the balance of circulating fund loans was 31.2 billion yuan higher than at the start of the year, an increase of 8 percent. However, in the 2.2 percent industrial output increase of the first semester, the effect in the rural

industry and in other, similar industries was 0.85 and 1.63 percentage points, and the effect in industries owned by the whole people was 0.31 percentage points, especially those large- and medium-size enterprises that had obtained large circulating fund loans showed particularly sluggish production increases, not only lower than the production increase growth in the enterprises owned by the whole people, but, by far, less than increases in the entire country's industry.

2. Minimal success in clearing up debts. Recently, banks have given distinctly intensified attention to the settlement of accounts. By allowing the banks to appropriately increase loans, the state has embarked on a large-scale debt liquidation movement, with particular attention given to clearing up of "triangular debts," the purpose being to reduce the interlocked chains of debts between enterprises, between departments, and between regions, and some successes have indeed been achieved. However, due to the fact that the enterprises have not truly accomplished their economic revival, there is still the inconsistency between debt clearance and shortage of funds. It has therefore frequently happened that as soon as the lock-chain of old debts was sprung, the lock-chain of new debts was immediately bolted on. Starting on 1 April, the banks began to change from "acceptance of documents" to "collection via banks," which tightened the supervisory function of the banks in the settlement of accounts, but which still left insoluble the problem of enterprises being without money to make payments.

3. Persistence of both benefits and shortcomings in the adjustment of interest rates. The 1.26 percent reduction of the interest rate for short-term deposits meant an annual savings of 6 billion yuan in interest payments by the banks and lightened the burden on the banks. However, at the same time, the loan interest rate was reduced by 1.26 percent, to lighten the burden on the enterprises, so that the enterprises will every year have to pay 10 billion yuan less in interests. Offsetting the two items against each other leaves the banks with a 4 billion yuan reduction in their profits.

III. Reconsidering Ways of Resolving the Fund Shortage Dilemma

Last year, the financial departments at four different times injected promotional credit funds into the enterprises; recipients were mainly state-run large and medium-sized industrial enterprises, but the results had not at all been satisfactory. Looking at the situation in Wuhan, we see that at the beginning of this year, the infusion of funds has had no promotional effect on the sluggish economy. The gross output value of industry declined 4.4 percent during the first quarter of this year, the number of unprofitable enterprises had reached 184; they make up 50.55 percent of state-budgeted, state-run industrial enterprises, and among these, 108 had turned unprofitable from having previously been profitable. In

the nationwide 2.2 percent growth of industrial production, the state-run large-and medium-scale enterprises seem to have had almost no influence on the growth index.

1. An analysis of the promotional methods.

When analyzing our promotional policy, we can see that the direction of promotional fund infusions was not truly geared to the needs of the industrial policy. The funds which the state provided "in a slanted way" to the large- and medium-sized enterprises ended up partly as product stockpiles; by the end of February of this year, 162.4 billion yuan were tied up in stockpiles of manufactured goods, a phenomenon which we may call "internal bleeding." Another portion of funds was poured, by way of outstanding debts, into enterprises with poor records of economic efficiency, and that phenomenon we may call "external bleeding." In this way, a vicious circle was created of simultaneous blood infusions into and blood extractions from the large- and medium-sized enterprises, resulting finally in their state of blood deficiency.

There are two effective ways of using the credit lever to prevent an economic slump and effect a turnabout in market weakness: One is the constant infusion of funds into the industrial and commercial enterprises in efforts to raise their capability to contend with the changes in their external environment. The other way is to accurately understand and take advantage of the series of interlocking production-supply-marketing ties between the various industries and trades, and to direct funds to the weakest links, increase effective social demand, revitalize funds now tied up in stockpiles of manufactured goods, and to clear channels for all the processes of production, exchanges, distribution, and consumption. Since last year, China has mainly adopted the first alternative in its currency and financial policies. However, since the inflation in China's consumption during the last few years has initially brought about an abnormal production structure—induced by the tidal wave of consumption—it happens now that a change has occurred in the total volume of consumption and its structure, that sales of a considerable portion of products have become sluggish, and the continued infusion of production funds would, of course, then also only be transformed into new stockpiles of manufacture products. This shows that mere reliance on the infusion of credit funds cannot solve the present contradictions and difficulties.

Summarizing China's present economic situation, we feel that the second proposition is the more feasible, namely to invest funds as a means to resolve economic contradictions and to energetically clear all channels from market "obstructions." The present tightness of funds has started with a weakness of the market and the serious stockpiling of manufactured goods. Cause for these phenomena is partly the production of unmarketable goods, but also, more importantly, the decline in demand. In 1989, retrenchments in China's fixed asset

investments amounted to 50 billion yuan, which, calculated at a 40 percent rate of transformation to consumption of daily necessities, would result in a reduction of 20 billion yuan in money available for the consumption of daily necessities, while 30 billion yuan would be left to meet the demand for means of production. Deducting the price factor, the actual reduction in fixed asset investments throughout society would be somewhat over 20 percent. At the same time, the restraint of group consumption did not give consideration to the demand from the consumption needs of certain newly arising industries and adopted measures that amounted to "cutting everything with one and the same knife," thereby also creating an ill effect on the development of certain trades. Last year, 35 percent of urban families and a part of the rural families suffered a decline in their real incomes, purely because of the rise in prices, and this would mean, also within the overall volume of demand, a reduction of part of the immediate consumption needs. It clearly shows that market weakness has occurred, after instituting administrative restraints, as a chain reaction in production, marketing, and consumption. It was particularly the languishing technological transformation of enterprises (throughout the whole country, renovations and transformations declined 20.5 percent compared to the previous year), the slowdown of increases in production investments of an indirect nature (such as in transportation, postal and telecommunications investments, for which increases were only 2.8 percent compared to increases in the preceding half-year), the slowdown of increases in the construction industry (a decline of 4.6 percent compared to the previous year), and a decline in real income of citizens, which altogether constituted the insufficiency in present normal social demand. At the same time, this caused a lack of fund investments and environmental support required for the restructuring of the economy. [passage omitted]

If it would be possible, at a time of economic difficulty, when a structural weakness is occurring in the market and production is at a low ebb, to strictly attend to the demand for structural readjustments and technological development, and to energetically invest funds in the renovation and transformation of enterprises and in the urban and rural infrastructure, it would give impetus to the upgrading and updating of mechanical and electrical products, construction materials, and some industrial raw and semifinished materials, of which a large proportion now suffer from sluggish sales. This would alleviate the difficulties experienced by enterprises manufacturing these materials, reduce enterprise losses, lighten the burden of subsidies now borne by the state. Developments in midstream and upstream enterprises manufacturing these products would then also have good prospects, and, in addition, stability would return to the construction industry. This is bound to stabilize demand for consumer goods in the downstream industries, relax pressures caused by sluggish sales of products of the light and textile industries, and, as a consequence, promote a "supply-demand" interlocking relationship between the various industries, trades, enterprises, as well as between

production and consumption. It would also reactivate large amounts of tied-up credit funds and integrate the favorable cycle of the industrial economy with the favorable cycle of available funds.

Directing the concentration of all funds toward investment in the weak links of the economic development (i.e. toward the technological transformation of enterprises and toward the urban and rural infrastructure) will therefore achieve better effects as a favorable cycle of guiding funds than simply infusing funds into industrial production and passively complying with fund demands from enterprises.

2. Discussing the "reducing savings, promoting purchases" idea.

Making due allowance for the commodity price factor, the total real value of social commodity retail sales throughout the entire society declined 7 percent in 1989, and the real value of sales of means of production of the goods and materials system declined 18.2 percent. However, at the same time, the 1989 savings of the Chinese urban and rural population rose 35.1 percent over the previous year. This has given rise to the following idea: Market weakness has mainly been created by the excessively rapid rise in savings which absorbed social purchasing power. Savings have reached a frightening, abnormal high level. To solve the present problem of market weakness, it would therefore seem necessary to adjust our savings policy, reduce savings of the urban and rural population, so as to increase social purchasing power.

This idea is certainly worth some consideration. As we analyze the change in the savings scene, we see that the currency inflation of 1988 dampened the people's eagerness to save, and this caused an outflow of 40 billion yuan of "savings resource" from the banks. In 1989, a large part of these funds again returned to the banks and again became savings deposits, because of the success of the economic improvement and rectification, the distinct slowdown in the rising trend of commodity prices, and the banks exerting great efforts to attract deposits by such methods as guaranteeing continued real value of savings deposits. The increased savings deposits of 1989 were therefore to a considerable proportion balances of cash income of staff, workers, and private citizens prior to 1989. Even with the inclusion of this portion of funds, the deposit rate of China's urban and rural population in 1989 was still only 35.1 percent. Compared with the average annual increase rate of 34.8 percent of savings of the urban and rural population during the period from 1979 to 1987, it is still normal and cannot be regarded as an abnormal increase of the saving rate. An analysis of economic data shows that in Japan, during the 28 years from 1951 to 1978, the average annual increase rate of total savings was somewhat over 30 percent and reached as high as 42 percent in 1962. It can be argued that in this sense the high rate of savings in Japan actually brought about a high growth rate of the economy. Under the present conditions, when Chinese banks cannot balance

their receipts and disbursements, and when there is strong demand for funds from all quarters, there is no other alternative than to expand savings deposits as the main channel for the procurement of funds.

As far as the consumption of the people is concerned, we see that private consumption is influenced by a great variety of factors, including the income of the citizens, the level of commodity prices, the consumption psychology, the social environment, etc. In 1989, the people's cash income increased 12.6 percent, while retail sales of social commodities during the same period increased 8.9 percent compared to the previous year. If we omit the "vacuum" effect that has presently appeared in the "tidal wave products" consumption created by the peak consumption during the preceding two years, the proportions of the two mentioned factors are more or less rational, and there is no cause-and-effect connection with any intention of the citizenry to merely reduce consumption in order to be able to increase their savings deposits. China's interest rate for savings deposits has all along been particularly low, and the main purpose of people to participate in savings deposits is frequently to gain the guarantee of constant value, to keep money in a safe place, to prepare for future expenses, and to be able to meet future eventualities, and the receipt of interest from the bank is a secondary consideration. After bank interest rates had been adjusted this year, savings deposits continued to increase at their usual steady pace, a fact that reveals that China's change of interest rates has little effect on popular consumption demand. If one were to rely on reducing savings to raise consumption, any such measure, whether analyzed as to its feasibility or as to its necessity, would not be an acceptable policy to eliminate market weakness.

Precisely as shown in the above analysis, the true reason for market weakness is not the increase in savings deposits, but the decline in the needs for social investments, the decline in real income of the people, and changes in the consumption structure. Measures to resolve the weakness of the market must therefore also go in these directions.

3. Suggestion to establish a mechanism for making short-term social funds available at different levels.

Monetary vitality is availability and turnover of funds. However, at China's present stage, state-owned enterprises are in dominant position in the national economy, the level of production and business operations is low, while there is still the need to ensure progress in production and business operations. These facts determine that credit relations between the banks and the enterprises are engendered and formed under state involvement and restrict raising the extent to which the specialized banks can act as true business enterprises in their business operations. The regulatory effect that banks can bring to bear on the stagnant condition of fund operations is extremely limited. In order to raise the awareness of the need for fund efficiency among enterprises, and to check the trend toward rendering the entire credit area into a

sphere of administrative action, it is necessary to perfect a pattern of fund movement guided by credit, to reform the investment system, to activate all investment channels throughout society, and to establish a mechanism for making short-term social funds available at different levels. It is also necessary to move the enterprises into a social credit environment in which loans will be easily obtainable, funds will be used with great care, and efforts will be directed toward attaining profitable returns, infusing new vitality into the availability and turnover of funds. In the near future, this reform objective may be approached from the following three directions:

First, reforming the investment system of banks in respect to the way credit funds are apportioned. Splitting the present apportionment of credit funds by the specialized banks into two parts: One part to be used as investment in key industries, key constructions and transformation projects, according to the state's industrial policy and for items declared by the state as of unqualified necessity; such items to receive administrative allocations by the government. Another part is to be independently handled by the specialized banks who will, by their own choice, elect to place these funds in the fund market. The proportions of these two fund parts shall be determined by the People's Bank, according to the request and assessment of the specialized banks, while the scope and interest rate of specialized bank loans shall continue to be controlled by the state. In the course of this reform, the business conduct of the specialized banks shall gradually take on the nature of independent business operations.

Second, developing fund markets, accelerating fund turnover. Fund markets shall be established and present fund markets of various urban and rural localities and regions perfected, with distinct times and places of business, operating with openly displayed terms, and with the aim of improving monetary services. They shall take up the business of bill acceptances and payments and short-term loans between state-run specialized banks, credit cooperatives, and enterprises. They shall reallocate funds from various localities and of the production and business units, selectively establishing nationwide or regional monetary centers. Through free decisions on both sides when considering supply and demand of funds and the free two-way choice, fair and impartial credit relations shall be established and the production and business units shall encouraged be attentive to raising the effectiveness of fund utilization and accelerate fund turnover.

Third, key cities (such as centrally administered municipalities, cities listed as separate units in the state plan, opened-up cities) shall expand the experimental initiation of a standardized shareholding system. Security exchange markets shall be established, from which, through the issue and trading of shares, bonds, and other securities permitted by the state, shall absorb idle social capital. Through a variety of channels, foreign funds shall be energetically attracted to take up shares in domestic enterprises, and capital shall be attracted from

abroad and from Hong Kong, Macao, and Taiwan to organize business conglomerates. We shall have the "idle power" of domestic funds combine with the "external power" of foreign funds, becoming a new source of funds for China's industry.

Recommendations for Treasury Bond Issues in 1990's

91CE0314A Beijing JINRONG SHIBAO in Chinese
10 Jan 91 p 2

[Article by Lu Hongying (0712 4667 7751): "Recommendations for Issuing Treasury Bonds in the 1990's"]

[Text] The Limits for Treasury Bond Issues in China

China reinstated treasury bond issues in 1981. Up to 1990, nearly 100 billion yuan worth of treasury bonds had been issued. Is such an amount appropriate? The author thinks that we should not judge it only by its total amount, but should comprehensively analyze all aspects based on China's specific national conditions. First, there is the state's ability to incur debt. Treasury bond issues are guaranteed by the state's financial revenues. At present, the state's financial revenues grow by an average of 20 billion yuan annually. Meanwhile, expenditures are also constantly increasing. From 1979 to the present there were deficits every year, except in 1985, when there was a slight surplus. Treasury bonds' share of total financial revenues has grown bigger and bigger. They account for more than 10 percent of total financial revenues, which is far beyond the 7.5 percent that economists consider the critical point. In view of this, the scope of treasury bond issues is on the high side. Second, there is society's ability to purchase bonds. The amount of treasury bond issues depends on the ability of enterprises and the general public to support the issues. We should take their ability to purchase bonds into account, and strictly control the amount of treasury bond issues within a range that will not affect enterprises' normal operation or the gradual annual increase in people's living standards. However, currently enterprises' bond purchases and expenditures on other apportion charges are too large. Statistics show that among the nation's state-run enterprises, the proportion of freely circulating funds to the fixed circulating fund dropped from 33.5 percent in 1983 to 20.7 percent in 1989. There is a serious shortage of funds for production and operations. As far as the individual is concerned, purchasing treasury bonds will directly reduce consumption. In Hubei Province in 1989, average employee purchases of value-guaranteed bonds equalled 100 yuan, and average treasury bond purchases equalled 30 yuan. This accounted for 11.66 percent of the province's per capita income of 1,114.5 yuan in 1989. If the inflation factor is added in, the disposable income of some families dropped. Thus it is evident that the ability of enterprises and individuals to purchase bonds is not very high in China. Third, there is the state's ability to balance the macroeconomy. Treasury bond issues are not an independent economic phenomenon. At the least they

involve balancing materials as well as funds. If we do not make proportionate use of treasury bonds in the construction of key projects, it will worsen the serious shortage of energy and raw material supplies. The material disposition will become imbalanced, and the development of other construction work will be affected. From a financial viewpoint, social funds are directly or indirectly absorbed into the system of balance between credit and payments. If excessive amounts of funds are taken from enterprises, the sources of credit funds will decrease, which will affect the balance between credit and payments. The shortage of funds will hamper the staying power of enterprise development.

The Future Posture of Treasury Bond Issues in China

Treasury bond issues in China are characterized by their large scale, short circulation period, and high costs. They will have various impacts on Chinese economic development in the days to come, and will determine the trend of treasury bond issues.

First of all, the peak period for debt repayments is in the first five years of the 1990's. It has been 10 years since treasury bond issues were restored. The terms for treasury bonds issued in the first seven of these years were long, while the terms for bonds issued within the last three years are short. Combining these long- and short-term bonds, the repayment period is concentrated in the period from 1990 to 1994. Moreover, the peak period for repaying foreign debts is also concentrated in the same several years. Thus the state will have to spend about 20 billion yuan in revenue to repay both international and domestic debts. There will be great pressures, because the new increases in state revenue will be "eaten up" by debt repayments. It is worth mentioning that it would be unwise not to repay the debt when it matures, or to postpone repayment. If we did, we would lose both our financial credibility and the confidence of the people. So we must be very cautious.

Second, the peak period for issuing treasury bonds is also in the first five years of the 1990's. By the end of the 1990's, aside from the debt that has been converted and repaid, we will still have domestic debt worth over 80 billion yuan and international debt worth over \$40 billion. Because it is constrained by its financial capability, the state cannot use large amounts of financial revenue for debt repayment, and thus it will inevitably issue a corresponding amount of new bonds to make up for the gap. This will be its basic position.

Thus it is evident that the scale of future treasury bond issues cannot be reduced. However, it cannot be expanded either.

Our Countermeasures

Based on the reality and the development trend of China's treasury bond issues, we offer the following countermeasures for consideration:

First, change the function of treasury bonds and adjust the debt system. The function of future treasury bond issues should shift from balancing financial revenues and expenditures to balancing credit and payments, that is, borrowing new debt to repay old debt. In accordance with this, treasury bonds issued between 1990 and 1994 will mainly be used to replace old debt. Meanwhile, the state will concurrently issue construction and deficit bonds. All these bonds will form a treasury bond system with diverse components. In this way, we can pass through the peak period of debt repayment more smoothly.

Second, scientifically determine the term for bonds and equalize the debt burden. In future treasury bond issues, we should avoid the contradiction of having a concentration of debt payments due within a concentrated period. We must scientifically predict such situations as financial revenues and social development in coming years, and then work out proper repayment deadlines. At the same time, we must differentiate between various bond repayment deadlines and achieve the appropriate distribution of short-, medium-, and long-term bonds. In this way we can equalize the debt burden, which can benefit sustained economic growth.

Third, open stock markets and improve the reputation of treasury bonds. Currently, China's stock markets are not open enough. Stock markets should not be confined only to a few large and medium-sized cities; they should be open to the whole country, and national trading networks should be established. We should set up a regular price-reporting system so that the profit rates remain similar and rational in different places. In this way, the public's legal interests are protected and the reputation of treasury bonds is raised.

Fourth, strengthen the construction of the legal system and perfect the treasury bond system. At present, China lacks the necessary legal protection for issuing treasury bonds. Usually one regulation is formulated each year. This is not stable enough, and it is unfavorable to treasury bond issues. In order to meet the long-term demand for treasury bond issues, we must formulate sound and stable laws concerning such issues. By taking into account the total volume, structure, terms, and interest rates of treasury bonds, we should standardize issues and gradually form a treasury bond administrative system suited to China's characteristics. Only in this way can we better utilize the state's credit and develop the national economy in a sustained, stable, and coordinated manner.

Brisk Sales of Treasury Bonds Noted

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4 Jan 91 p 3

[Article by Rui Zhai (5360 7872): "Treasury Bonds Stride Toward the Market; Demand Is Strong, Prices

Continue To Rise, Regional Differences Become Smaller; and Market Management Is Close to International Standards"]

[Text] If we say that treasury bonds' entry into the circulation and transfer market has injected vitality into the fledgeling security market of China, then reviewing the 1990's treasury bond circulation market will make market operators even happier. In 1990 the treasury bond circulation market witnessed brisk sales, and sales prices began to rise in April and continued a steady rising trend ever since. Judged by the end-of-the-month sales prices of transactions handled by the treasury bond brokers of financial departments in major cities, the sales price of a 1986 treasury bond with a face value of 100 yuan rose from 122.8 yuan in April to 140.4 yuan in December. After eliminating the factor of automatic appreciation of bonds due to interest, the prices of treasury bonds still maintain an obvious rising trend.

The rising of the transfer prices of treasury bonds has something to do with the automatic appreciation of treasury bonds. In addition, it is also related to a large degree to the recovery and stability of the national economy and the improvement of the reputation of treasury bonds. This point is no longer ignored by the people as it was in the past. Instead, it has gradually become an important signal guiding the investment of bonds as people's financial awareness grows. A few years ago a major characteristic of market transactions was that there were more sellers than buyers, that security companies' inventory continued to expand, and that they faced enormous pressures in operations. In 1990 security companies faced however a different kind of problem caused by enthusiastic buyers and a shortage of market supply. Many security companies had to dig deep into their inventory to try to maintain the market supply. This means that the purpose of participating in the treasury bond market transactions has changed from the previous simple need for redemption to a variety of reasons including redemption and investment.

In the past the regional difference in the transfer prices of treasury bonds was great, and the profit rate of second-hand treasury bonds was excessively high. Since last year the phenomenon of great regional difference has changed substantially along with the development of information exchange of treasury bond markets and the invigorating and expansion of inter-regional transactions and thanks to the fact that the departments concerned have adopted some regulating measures. Take 1986 treasury bonds again for instance. In the first half of 1990 the regional difference of price was between 3 to 6 yuan. But in the second half of 1990 it declined markedly, especially after November, to about 1.5 yuan. In June when the price difference was the greatest, the regional difference of price dropped by 74.14 percent. At the same time, the profit rate of treasury bond transfer has also become rationalized.

The prices of Shanghai's treasury bond market remained the highest for several consecutive years. This situation,

however, has gradually been changed. According to the listing of financial departments on 17 April, Shanghai's price of 1986 treasury bond is 125.5 yuan, a difference of 1 to 3 yuan as compared to the prices of other cities. On 10 September, Chengdu's price reached 137 yuan, exceeding Shanghai's 136.9 yuan. By 10 December, the prices of Chengdu, Wuhan, Chongqing, and Harbin all exceeded 140 yuan, obviously exceeding Shanghai's 139.6 yuan. This shows that the sales prices of China's security market have broken through the traditional one-center structure and are developing in a pluralistic direction.

In addition, the bond market is developing in the direction of diversification of transactions. Between 1988 when the experiment of bond transfer began in selected units and the end of 1989, the variety of market transfer was limited to 1985 and 1986 treasury bonds. Now there are treasury bonds of 1986, 1987, 1988, and 1989 and value-guaranteed government bonds in the circulation of market. The diversification of bond transactions has further shortened the intervals of bond transfers, indicating that the government authorities have increased their capabilities of market operations and intervention and that China's treasury bond market management is getting closer to the international standards. In this process, the brokers of financial departments have implemented the policy of price protection and played a role in guiding the market and protecting the interests of investors.

The projection of 1991 shows that the treasury bond circulation market transactions will still be brisk, and sales prices will rise steadily. Expected changes in the major factors that would affect the treasury bond circulation market are as follows: 1) The year of 1991 will be a year of continuous recovery of our national economy. The economy will maintain an appropriate growth rate. The people's income will have some increase. This is one of the bases for maintaining the relative prosperity of the treasury bond circulation market. 2) Since we have nearly three years of experience in opening up the treasury bond circulation market and since the people have understood the periodic law of economic fluctuation in recent years, market investors' judgment will fit in further with the characteristics of bonds. This will weaken, to a certain degree, the influence of short-term economic fluctuation on the treasury bond market and help stabilizing the market. 3) In 1991 a large number of treasury bonds held by individuals will expire and require redemption. Treasury bonds issued in 1990 will be put into the secondary market in 1991, and the maturity period of transferred bonds will be extended from the current 6 to 18 months to 6 to 30 months, thus providing more choices for long-term investors.

Timing of Tax-Profit Separation

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[Article by He Jichuan (0149 3444 1557); edited by Tong Zetian (0157 3419 3944): "On the Timing for the Implementation of Profit-Tax Separation"]

[Text] In 1987, the Economic Research Center of the State Council, the State Commission for the Reform of the Economic Structure, the Ministry of Finance, the General Administration of Taxation and other departments concerned proposed to the State Council that the separation of taxes and profits be implemented in state-operated enterprises. The main points of this proposal are: To lower the income tax rate of state-operated enterprises from 55 percent to 35 percent; to abolish the regulatory tax; and to replace before-tax loan repayment and contract execution with aftertax loan repayment and contract execution.

This proposal drew strong response from economic theorists and enterprise managers as soon as it was put forward. Academic papers on the separation of taxes and profits were published one after another. In 1987, following the publication by the Ministry of Finance of document Caigai No. 25, entitled "Preliminary Views on Further Experiments in Chongqing To Reform the Relations Between the State and Enterprises in the Distribution of Profits," experiments in the separation of taxes and profits began at selected places in Chongqing City. In 1989, the Ministry of Finance and the State Commission for the Reform of the Economic Structure published another document, the Caigai No. 2, entitled "Plans for Trying Out the Separation of Taxes and Profits in State-Operated Enterprises." To this date, however, the separation of taxes and profits was still at an experimental stage in a small number of small cities and enterprises. Should the separation of taxes and profits be implemented throughout the nation? What is the appropriate time for the implementation of this policy? These problems have yet to be answered. In this connection, the following three views are of a representative nature:

1. The separation of taxes and profits is an outdated idea. Comrades who uphold this view said: The separation of taxes and profits was put into practice when enterprises owned by the whole people were first set up just after the founding of the People's Republic. The taxation system had undergone successive reforms over the past few decades. In these reforms, we either let ourselves be guided by the idea of "taxation is all-powerful" and relied on the taxation form alone in connection with the state's participation in the redistribution of enterprise earnings, an approach which denied profit delivery as another possible option, or let ourselves be guided by the idea of "taxation is useless" and relied on the profit delivery form alone in the state's participation in the redistribution of enterprise earnings, an approach which denied taxation as a necessary form. This way of thinking which jumbled taxation and profit delivery together has grown into a habit, and it is a little too late now to talk about the separation of taxes and profits. If we arbitrarily break this habitual way of thinking and push the separation of taxes and profits, the state's economic order is bound to be thrown into chaos, and production and state revenue are bound to decline as a result.

2. The separation of taxes and profits must be implemented with haste. Comrades who uphold this view believed that the separation of taxes and profits in state-operated enterprises had reached a critical state when prompt action was required. They said: We have achieved initial success in the first step of the reform to replace profit delivery by taxes. We have also learned our lesson from mistakes in the second step of the reform. These have provided us with a "mirror" which reflects the positive as well as negative results of the separation of taxes and profits. They also said: The problems brought on by the contract management system, such as short-sightedness on the part of enterprises and the fact that the state is not getting any benefits from increases in enterprise revenue, have come to a head, and it has become imperative for the mechanism of separate taxes and profit delivery to be introduced. The more this separation is deferred, the greater state revenue will suffer, and the reform of the financial and taxation system will be rendered passive as a result. Thus, they believed that as the majority of enterprises were reaching the end of their contracts, now was the golden opportunity to launch the reform on separating taxes and profit delivery on a national scale.

3. The separation of taxes and profits will not be realized in the foreseeable future. Comrades who uphold this view said: State-operated enterprises must practice the separation of taxes and profits. However, state-operated enterprises not only were not and are not in a position to separate taxes and profits, but will not be in a position to do so for a long time to come. The reason is that the state is faced with grave economic conditions, conditions which are unlikely to turn for the better in the foreseeable future. State-operated enterprises are important pillars of the state's financial departments. In order to cope with heavy financial burdens, the state must continue to tax state-operated enterprises heavily for a considerably long period to come. We understand that the most vital condition in the separation of taxes and profits is the lowering of the income tax rate. There is no way that this can be done at this stage; but unless the tax burdens of enterprises are reduced, they will not be able to increase their ability to enlarge reproduction. This means that another key measure in the separation of taxes and profits, namely, the switch from before-tax loan repayment to after-tax loan repayment, also cannot be implemented. Thus, although the separation of taxes and profits is a good idea for the reform of the taxation system, it is not something that can be realized in the foreseeable future.

This author is of the opinion that all the above three views are one-sided and are not in keeping with the dialectical materialist theory of knowledge.

1. The separation of taxes and profits in state-operated enterprises is by no means out-dated. For quite a long time now, people have been regarding state-operated enterprises as enterprises directly run by the state, that is, the state is the owner as well as operator of enterprises. Thus, they have not given any thought to the

separation of taxes and profits. Theoretically speaking, the question of the separation of taxes and profits should have been raised the moment state-operated enterprises were set up. Although this question has not been raised, it does not mean that it is too late to start thinking about it now. Marxist philosophy maintains that man's cognitive process is a complicated process of the movement of contradictions, a process of development from the unknown to the known, from one-sided understanding to all-around understanding, and from the elementary to the advanced. A correct understanding usually involves repeated reversals, and the same is true with our understanding of the relationship between the state and state-operated enterprises. It is only on the basis of continuous reform that we can gradually come to a correct conclusion. Without the negative lessons learned from the practice of "everybody eating from the same big pot" during the period when the product economy was practiced, we will not have gained the positive experience of practicing the socialist planned commodity economy in the period of economic restructuring. Without suffering for the lack of distinction between taxes and profit delivery, we would not have been able to come up with the idea of separating taxes and profits in recent years. Thus, it is not only not too late, but is rather the inevitable outcome of the dialectical materialist theory of knowledge, to talk about the separation of taxes and profits now. This is necessary not only for the further clarification of the dual identity of the state as the macroeconomic manager and asset owner of enterprises, but also for the further clarification of the status of enterprises as independent producers and operators. In order to highlight the difference between the owner and the operator, emphasize the necessity of the separation of taxes and profits, and avoid any confusion in meaning, the name "state-operated enterprises" should also be changed to read "enterprises owned by the whole people" or "state-owned enterprises."

2. The separation of taxes and profits in state-operated enterprises cannot be implemented with haste. Although the separation of taxes and profits is the correct answer to the handling of the relationship between the state and state-operated enterprises in the distribution of benefits, it does not mean that the quicker this policy is implemented the better. There are inherent laws governing development. Objectively speaking, the time has not yet come for us to push the separation of taxes and profits on a full scale. The main reasons are as follows: 1) We have not done sufficient theoretical studies on the separation of taxes and profits. 2) There is still a lack of unified understanding among economic theorists, enterprise leaders, and government departments of the necessity of putting the separation of taxes and profits into practice. 3) Uring the current period of economic improvement and rectification, political, and economic stability is a matter of primary importance, and the separation of taxes and profits, as a new idea for reform, is likely to adversely affect the present contract system. Thus, during this period, it is inadvisable to introduce major reform measures, including the separation of taxes and

profits. 4) The fundamental objective of the separation of taxes and profits is to bring about a steady increase in state revenue and in the vitality of enterprises. This means that we must find a meeting point for the achievement of resonant effects. Such a meeting point has yet to be found.

3. The separation of taxes and profits in state-operated enterprises is not something that cannot be realized in the foreseeable future. From the above analysis, we can see that there are indeed difficulties in pushing the separation of taxes and profits on a full scale. However, these difficulties are transient and can be overcome, not something that will last forever. In the final analysis, the separation of taxes and profits is both feasible and necessary. The main reasons are: 1) The necessity of the separation of taxes and profits has been understood on a theoretical level by an increasing number of people. 2) Although experiments in the separation of taxes and profits have not been totally successful, they have accumulated some successful experience and prepared the necessary conditions for implementation on a national scale. 3) Although certain readjustments have been made in the distribution of benefits between the state and enterprises, both the state and the individual enterprises are of the opinion that these readjustments which rely on the contract mechanism are still not the best option. They both see the need to introduce a new mechanism for the readjustment of benefits and find a meeting point for achieving optimum resonant effects between the state financial departments and the enterprises. Through analysis and comparison, we understand that a view shared by most people is that the only way to achieve this objective is to introduce the mechanism of separate taxes and profits. 4) From the general trend of development, we can see that the further deepening and improvement of our reform of the economic structure is something that cannot be reversed. Under this general atmosphere of reform, new policies and measures will naturally be introduced every year, and it is only natural that the separation of taxes and profits will mount the stage of reform when the time is right.

Tax Revenue Statistics Reported

HK0403104391 Beijing JINGJI CANKAO BAO
in Chinese 3 Feb 91 p 4

["Excerpts" from XUESHU XINXI [ACADEMIC INFORMATION], 5 January 1991: "Data on China's Revenues"]

[Text] The proportion of China's tax revenue in gross social product is as follows: China's gross social product in 1952 was 100.15 billion yuan and tax revenue, 9.77 billion yuan, accounting for 9.6 percent of gross social product. In 1988 gross social product totaled 1,984.7 billion yuan and tax revenue, 237.5 billion yuan, accounting for 8 percent of gross national product. In these 36 years, the proportion of tax revenue in gross social product was 12.3 percent, the highest, in 1985; and 6.7 percent, the lowest, in 1980.

The proportion of China's tax revenue in national income is as follows: China's national income in 1952 totaled 58.9 billion yuan and tax revenue accounted for 16.6 percent of the national income. National income in 1989 totaled 1,300 billion yuan and tax revenue accounted for 21 percent of national income. In these 37 years, the proportion of tax revenue in national income was high as 30 percent in 1985 and as low as 14.7 percent in 1965.

The proportion of China's tax revenue in gross national product is as follows: China's GNP for 1978 totaled 358.8 billion yuan and tax revenue, 51.93 billion yuan, accounting for 14.5 percent of the GNP. The GNP for

1989 amounted to 1,567.7 billion yuan and tax revenue accounted for 17.4 percent of the GNP. In these 11 years, the proportion of tax revenue in GNP was 23.8 percent, the highest, in 1985; and 12.8 percent, the lowest, in 1980.

1990 Economic Data by Region

Part I

HK0801110191 Beijing CEI Database in English
8 Jan 91

[Text] Beijing (CEI)—Following is a list of economic data by region from January-November 1990.

	Fixed Assets Invest Volume (100 m yuan)		(including) Regional Projects	
	1-11/90	increase over 1-11/89(pc)	1-11/90	increase over 1-11/89(pc)
Total	1652.62	8.2	886.71	9.5
Beijing	77.71	12.9	37.90	20.1
Tianjin	43.73	-2.1	26.71	3.3
Hebei	64.30	3.4	32.49	10.9
Shanxi	55.92	16.9	21.61	18.6
Inner Mongolia	32.92	11.2	16.01	2.6
Liaoning	123.10	4.8	69.58	-3.3
Jilin	34.98	7.8	18.32	5.3
Heilongjiang	71.13	-5.2	31.28	-7.4
Shanghai	134.53	1.4	76.06	15.5
Jiangsu	80.71	5.8	50.59	23.5
Zhejiang	43.59	6.1	27.26	5.5
Anhui	36.12	12.10	21.00	19.7
Fujian	36.12	12.5	27.18	14.8
Jiangxi	27.91	11.6	17.33	6.4
Shandong	84.44	0.9	42.80	1.2
Henan	53.23	5.1	17.88	-3.3
Hubei	53.95	25.0	36.28	24.8
Hunan	41.21	4.4	22.20	-1.1
Guangdong	154.26	10.3	124.02	13.5
Guangxi	21.32	-9.8	16.38	-8.4
Hainan	16.31	20.5	12.71	28.2
Sichuan	94.97	13.2	52.37	14.4
Guizhou	21.56	14.9	10.87	4.4
Yunnan	29.04	19.8	19.10	23.0
Tibet	5.61	27.8	3.85	33.7
Shaanxi	41.28	14.0	18.03	1.5
Gansu	30.09	12.4	12.30	11.1
Qinghai	10.28	-8.4	4.90	28.6
Ningxia	11.22	34.9	5.91	24.8
Xinjiang	35.76	13.6	13.78	-4.3

Part II

HK0801110391 Beijing CEI Database in English
8 Jan 91

[Text] Beijing (CEI)—Following is a list of economic data by region from January-November 1990.

Credit Balance and Increment by the End of Nov. (100 million yuan)				
			Investment Loans for Fixed Assets	
	Balance	Increase Over Beginning of Year	Balance	Increase Over Beginning of Year
Total	14534.29	2125.01	2056.17	280.20
Beijing	535.78	55.65	89.07	9.08
Tianjin	374.40	55.29	45.21	8.52
Hebei	608.08	83.31	69.77	5.47
Shanxi	334.92	53.88	50.60	11.04
Inner Mongolia	256.21	43.45	31.08	3.67
Liaoning	876.65	134.47	119.61	19.08
Jilin	473.38	88.63	52.69	9.21
Heilongjiang	625.66	99.89	66.15	10.69
Shanghai	780.77	123.79	107.24	22.40
Jiangsu	797.67	108.76	77.65	5.80
Zhejiang	457.67	57.19	51.25	4.34
Anhui	385.58	61.02	51.12	5.66
Fujian	301.28	33.17	52.32	2.99
Jiangxi	317.83	43.94	48.37	6.04
Shandong	908.72	144.05	118.54	18.36
Henan	614.70	103.09	65.41	12.56
Hubei	694.67	101.21	94.02	6.13
Hunan	443.19	58.56	48.85	5.95
Guangdong	1239.61	149.35	152.46	14.68
Guangxi	266.50	28.77	51.86	3.15
Hainan	112.95	15.98	19.09	2.58
Sichuan	743.04	116.21	99.97	15.36
Guizhou	165.02	22.79	30.65	5.15
Yunnan	236.82	24.29	34.72	2.59
Tibet	16.75	2.79	0.22	-0.02
Shaanxi	372.06	66.45	66.99	10.32
Gansu	194.93	32.86	39.44	8.80
Qinghai	68.03	9.07	21.60	2.36
Ningxia	64.67	9.67	16.91	2.19
Xinjiang	220.32	46.72	42.84	5.26

Part III

HK0801110591 Beijing CEI Database in English
8 Jan 91

[Text] Beijing (CEI)—Following is a list of economic data by region from January-October 1990.

Total Paymanet to Employees		
	1-10/90 (100 million yuan)	Increase over 1-10/89 (%)
Total	2,464.73	11.5
Beijing	92.93	13.5
Tianjin	58.69	9.5
Hebei	108.21	10.4
Shanxi	74.26	11.3
Inner Mongolia	54.62	9.6
Liaoning	184.79	10.0
Jinlin	80.23	9.3
Heilongjiang	126.74	10.7
Shanghai	122.24	8.3
Jiangsu	155.93	12.2
Zhejiang	88.09	8.1
Anhui	73.11	12.9
Fujian	55.41	15.1
Jiangxi	54.83	12.8
Shandong	134.97	15.6
Henan	107.54	17.4
Hubei	108.02	10.0
Hunan	89.31	10.8
Guangdong	187.09	10.7
Guangxi	52.42	11.9
Hainan	15.80	19.0
Sichuan	154.59	11.6
Guizhou	34.26	13.0
Yunnan	50.82	13.6
Tibet		
Shaanxi	62.58	11.4
Gansu	46.55	13.1
Qinghai	15.01	6.9
Ningxia	12.23	14.4
Xinjiang	58.68	11.9

Part IV

HK0801110791 Beijing CEI Database in English
8 Jan 91

[Text] Beijing (CEI)—Following is a list of economic data by region from January-October 1990.

Labor Productivity		
	1-10/90 (yuan/person)	Increase Over 1-10/89 (%)
Total	17,220	0.5
Beijing	25,299	-0.4
Tianjin	24,466	-1.3
Hebei	14,162	1.1
Shanxi	11,042	0.1
Inner Mongolia	10,251	-0.9
Liaoning	17,092	-1.7
Jinlin	13,611	-3.1
Heilongjiang	12,724	-2.8
Shanghai	31,085	-0.8
Jiangsu	22,850	6.8
Zhejiang	20,308	2.6
Anhui	15,504	0.7
Fujian	16,223	-1.2
Jiangxi	12,364	-0.4
Shandong	20,023	2.0
Henan	13,948	-0.1
Hubei	18,469	-2.7
Hunan	14,553	-0.2
Guangdong	26,520	7.9
Guangxi	15,553	3.8
Hainan	13,200	13.3
Sichuan	13,282	-1.0
Guizhou	13,699	3.7
Yunnan	17,448	7.2
Tibet		
Shaanxi	13,994	-1.0
Gansu	15,513	0.9
Qinghai	13,586	2.1
Ningxia	13,352	3.6
Xinjiang	14,303	3.0

Part V

HK0801110991 Beijing CEI Database in English
8 Jan 91

[Text] Beijing (CEI)—Following is a list of economic data by region from January-October 1990.

	decrease ratio of industrial product cost (percentage)	
	1-10/90	1-10/89
Total	-6.5	-20.0
Beijing	-7.6	-20.5
Tianjin	-3.7	-24.4
Hebei	-7.1	-24.4
Shanxi	-5.2	-13.7
Inner Mongolia	-6.6	-21.5
Liaoning	-9.3	-21.6
Jilin	-4.6	-24.2
Heilongjiang	-4.7	-19.6
Shanghai	-10.8	-20.6
Jiangsu	-1.0	-24.1
Zhejiang	-1.3	-26.7
Anhui	-4.1	-21.2
Fujian	-1.8	-23.5
Jiangxi	-2.8	-23.3
Shandong	-4.6	-24.5
Henan	-8.8	-28.0
Hubei	-6.0	-20.2
Hunan	-4.2	-20.9
Guangdong	0.3	-26.5
Guangxi	-1.1	-21.3
Hainan	-5.5	-21.8
Sichuan	-5.0	-20.0
Guizhou	-7.8	-20.8
Yunnan	-6.3	-19.3
Tibet		
Shaanxi	-4.4	-21.5
Gansu	-4.4	-18.8
Qinghai	-10.1	-19.4
Ningxia	-4.6	-19.1
Xinjiang	-4.4	-18.9

Part VI

HK0801111191 Beijing CEI Database in English
8 Jan 91

[Text] Beijing (CEI)—Following is a list of economic data by region from January-October 1990.

	Profit-tax ratio of industrial sales (%)	
	1-10/90	1-10/89
Total	13.73	17.41
Beijing	17.41	21.51
Tianjin	11.16	13.76
Hebei	10.17	16.24
Shanxi	14.91	16.55
Inner Mongolia	15.13	18.25
Liaoning	10.21	17.02
Jilin	12.86	17.83
Heilongjiang	9.84	13.99
Shanghai	13.46	16.39
Jiangsu	8.19	11.17
Zhejiang	10.25	13.64
Anhui	12.69	14.30
Fujian	12.81	16.46
Jiangxi	8.38	13.23
Shandong	10.53	14.79
Henan	12.23	15.01
Hubei	12.74	16.85
Hunan	9.03	15.32
Guangdong	9.94	13.26
Guangxi	12.59	16.38
Hainan	7.95	15.30
Sichuan	10.19	15.42
Guizhou	14.60	18.28
Yunnan	17.24	20.19
Tibet		
Shaanxi	11.92	16.16
Gansu	12.19	16.55
Qinghai	8.11	14.38
Ningxia	12.78	17.54
Xinjiang	13.85	18.27

INDUSTRY

Regional Reporting on Enterprise Performance

Eastern Region

91CE0346A Beijing JINGJI CANKAO BAO in Chinese
30 Jan 91 p 2

[Article by staff reporter Fan Ping (5400 1627): "Where Are Township-Town Enterprises Going?"]

[Text] Guangdong: Joining Forces To "Attack" Export-Oriented Economy

In some parts of Guangdong, because of the province's exceptionally good geographical conditions and the continuous improvement of its basic facilities and investment environment, export-oriented township-town enterprises have begun to take shape. Therefore, the province's relevant departments have called on all such enterprises to make vigorous use of foreign capital, conduct well the technological transformation of existing enterprises, and increase product export. At the same time there must be a continuation of the energetic development of processing and packaging businesses for foreign countries, an enhancement of the cooperation between industry and trade, and, in the Eighth Five-Year Plan period, the advancement of township-town export-oriented economy to a new stage.

Statistics show that last year the number of export-oriented township-town enterprises grew to 10,500. They earned \$2.5 billion in foreign exchange, 20 percent more than in the year before last. The income of export-oriented enterprises at the town level in the small number of developed areas accounted for more than half of the total income of town-level township-town enterprises.

Beijing: New Round of Contracts To Solve "Eight Difficult Problems"

This year the township-town enterprises in the suburbs of Beijing began to enter a new round of the contract responsibility system, and the municipality's Township-Town Enterprise Bureau has called on such enterprises to focus on solving well eight problems by yearend: energetically practice the collective contract and factory director responsibility systems, and strengthen the rural collective economy; consolidate and control individual contracts, and correct the practice of having contracts that are collective in name but individual in reality; enhance the appreciation of fixed assets and increase the reserve forces of enterprises; incorporate management work into the contract index system, and link it closely to the total remuneration of staff and workers; solve the problem of linking the total remuneration of staff and workers to economic returns; implement risk mortgages and strengthen risk mechanisms; incorporate democratic management into contracts; and standardize contract texts in all counties (districts).

According to incomplete statistics, last year the total income of all township-town enterprises in the municipality was more than 17 billion yuan, and the gross value of their industrial output was over 15 billion yuan, in both cases being a 20 percent rise as compared to the figures in the year before last.

Shandong: Enterprises Should Be Allowed To Have "Strong Muscles and Sturdy Bones"

In the Eighth Five-Year Plan period, the township-town enterprises of Shandong Province initially plan to develop 17,000 new products, double the number in the Seventh Five-Year Plan period and a yearly average increase of 15 percent. In addition, 60 percent of the investment in fixed assets will be used for the technological transformation of township-village industry. They plan in five years' time to effect one transformation of the backbone enterprises in towns and villages, so that the output value created by technological progress accounts for more than 50 percent of the newly added output value.

To this end, every year on average 300,000 persons will be trained, so that the proportion of technicians in the total number of staff and workers in the enterprises will rise from the 1.76 percent at the end of the Seventh Five-Year Plan period to 3 percent. The construction of export bases is to be accelerated, and in the Eighth Five-Year Plan period there will be an attempt to make use of \$200 million in foreign capital. Prominence will be given to getting a good grip on six industries—agricultural and sideline products, electromechanical, mine construction, light and textile, chemical, and industrial arts—for the formation of 10 major sets of products, with 10 townships and towns having an export delivery value exceeding 100 million yuan and 10 counties having an export delivery value of 500 million yuan.

Hebei: Focus on Improving Quality

This year the specific goals of management in the township-town enterprises of Hebei Province are: First, to strive by yearend to have a third of the collective enterprises set up a fairly scientific management system. Second, for 50 percent of the export products and the principal products, to adopt international standards or foreign advanced standards in the organization of their production. Third, by enhancing quality control to work hard to raise by 5 percent the sampling check rate for product quality. Fourth, by controlling the activities in this year, to attain the standards of provincial-level advanced enterprises in four indices—quality, consumption, returns, and production safety—in all enterprises that have a yearly output value of 10 million yuan or higher.

Quanzhou: Playing "Bridge"

Quanzhou City, the famous native place of many overseas Chinese, in developing its economy plays good "bridge." As a result all township-town enterprises in the city have made a lot of money. According to statistics,

last year the gross output value of the city's township-town enterprises and the taxes they paid to the state were both 10 times what they were 10 years ago.

At a briefing it was learned that, of the many advantages of the city, the advantage with the most influence and potential is the more than 5 million overseas Chinese and Hong Kong, Macao compatriots. For this reason, the city's party committee and government have devised many measures to attract overseas Chinese and to use their strength to develop township-town enterprises. There are now 10 export production bases of a considerable scale for clothing, knitwear and textiles, foot and head gear, articles of everyday use, tea, canned food, electronics, building materials, household utensils, and industrial plastics. Their products, of more than 1,200 variety specifications in 16 major categories, are sold in more than 50 countries and regions of the world.

At present the flow of overseas Chinese capital into Quanzhou is concentrated on township-town enterprises. Incomplete statistics show that overseas Chinese-capitalized township-town enterprises account for about 60 percent of the total number of the "three kinds of enterprises that are either partially or wholly foreign-owned," and 38 backbone enterprises earned by export more than \$1 million in foreign exchange. To play good "bridge" Quanzhou City's party committee and government have set the goals of development for township-town enterprises in the Eighth Five-Year Plan period: that in four major economic indices—total income, industrial output value, taxes paid to the state, and actual profit—the enterprises achieve a yearly average increase of [percentage illegible], thereby guiding township-town enterprises in the direction of attaining high levels and high standards.

Shanxi 1990 Production Figures

91CE0346B Taiyuan SHANXI RIBAO in Chinese
3 Feb 91 p 1

[Article by Jin Chuan (2516 1157) and Xiong Ying (7160 7751): "Last Year's Gross Output Value of Township-Town Enterprises in Shanxi Province Totaled 18.5 Billion Yuan"]

[Text] We reporters learned at the provincial work conference on township-town enterprises: in 1990 the gross output value of township-town enterprises in Shanxi Province was 18.53 billion yuan, 14.7 percent higher than in 1989. Surpassing the average growth level in China as a whole, it respectively accounted for 59 and 32 percent of the gross output value of the province's rural society and industry. Fifty percent of the peasants' income came from township-town enterprises. The development of these enterprises has made a great contribution to insuring that Shanxi's national economy enjoys a sustained, stable, and coordinated growth; and it plays an incalculable role in stabilizing the rural areas and the entire province.

In the Seventh Five-Year Plan period, township-town enterprises in Shanxi developed by leaps and bounds. Compared with the end of the Sixth Five-Year Plan period, the net increase in gross output value of township-town enterprises was 10 billion yuan, doubling in five years. Last year, in concentrating efforts on adjusting their industrial structure and product mix, the enterprises improved their capability to meet emergencies and to compete on the market. First, they developed the basic industries, and there was a new growth of the processing industry, which for a long time had been weak. There were more than 2,500 tons of transformed raw coal, and transformed pig iron accounted for half of the total output. Compared with the production in the year before last, the production of both starches and foodstuffs grew by 20 percent or more. Next to move up were a number of enterprises with high starting points and high technology content. In the province last year, the number of enterprises earning 1 million or more in foreign exchange from export grew to 18, 66 enterprises were assessed as advanced units in Shanxi's "enterprise management year" activities, and 65,000 persons (times) of specialized talents of various types were trained.

At the provincial work conference on township-town enterprises, Wang Maolin [3769 5399 2651], deputy secretary of the provincial party committee, delivered a speech in writing. From the height of theory and macroeconomics, he discussed the important strategic position of township-town enterprises, analyzed their condition in Shanxi, and made suggestions for guiding their development. The conference participants conscientiously studied and discussed his speech. Vice Governor Guo Yuhuai [6753 5940 2037] came to the conference and made a speech. He fully affirmed the special contribution to Shanxi's national economy made by township-town enterprises, pointing out that their further development lies in managing for returns, quality, and standards. Li Tingwei [2621 1694 1218], director of the provincial Township-Town Enterprise Bureau, made the work report at the conference.

Southern Jiangsu Enterprises

91CE0346C Shanghai JIEFANG RIBAO in Chinese
4 Feb 91 p 2

[Article by reporter Ding Renyao (0002 0088 5069): "Southern Jiangsu Township-Town Enterprises Come Out of Slump"]

[Text] Emphasizing intensive improvement and working for extensive development, the township-town enterprises in southern Jiangsu Province are coming out of their slump in industrial production and doing better and better. Statistics show that in the three cities of Suzhou, Wuxi, and Changzhou the enterprises at the level of township and village last year had an industrial output value of more than 60 billion yuan and a foreign

trade purchasing volume of 5.66 billion yuan, respectively 14 and 34 percent higher than in the previous year. Their economic returns are again rising month by month.

Township-town enterprises were started in southern Jiangsu in the seventies. They enjoyed a large growth in the seventies, when their yearly average rate of increase was 30 percent or higher. However, beginning in 1979 eighties there was an unprecedented "major downturn" in the township-town enterprises of southern Jiangsu. Faced with this grim economic situation, they turned pressure into impetus and, not losing the opportune moment, switched from extensive expansion to intensive improvement, thereby causing gratifying changes in the economic structure.

The first change was that funds were gradually invested more appropriately, and technological advances and product mix were geared to key investments. According to reports from the township-town enterprise bureaus of the three cities of Suzhou, Wuxi, and Changzhou, 70 percent of last year's newly added fixed assets were used for technological transformation, a rise of about 20 percent compared with the previous figure, thereby changing the past situation in which equal stress was put on the "shell" (civil engineering) and the "viscera" (equipment). Last year Wuxi City came up with 15 new products to fill gaps within China, and it added 50 new kinds of products for foreign trade.

The second change was that a great deal of attention was paid to internal management, resulting in further improvements in product quality. According to incomplete statistics, more than 10 township-town enterprises in southern Jiangsu have promoted to state second-class enterprises. In Changzhou City 57 products of township-town enterprises have been designated as enterprises of "department-level excellence," "provincial-level excellence," or higher, a figure that set a new historical record.

The third change was that the capabilities for self-accumulation and self-development were enhanced. The township-town enterprises in southern Jiangsu, which depended on "borrowed heads" to get started, are now stocking their own "heads" in order to reduce their dependence on foreign technology. Every year Suzhou City trains 150,000 person-times of staff and workers, and there has been a widespread improvement in the quality of the city's staff and workers. The Wujin Chemical Industry Antirot Materials Plant has its own research institute, which has developed more than 10 new products, on all of which there have been fairly good economic returns.

The fourth change was the opening of international markets and the developing of an export-oriented economy. Last year the township-town enterprises in Wuxi City had a foreign trade purchasing volume of 2.1 billion yuan, 40 percent higher than in the previous year and the biggest such rise in Jiangsu. In Suzhou City, which got started fairly early in this respect, there are

already six towns of "one hundred million yuan in foreign trade." Last year 79 "three kinds of partially or wholly foreign-owned" enterprises were established, showing an unprecedentedly strong momentum.

FOREIGN TRADE, INVESTMENT

Options for Foreign Trade Strategy, Stimulation

91CE0298A Beijing JINGJI YANJIU [ECONOMIC RESEARCH] in Chinese No 11, 20 Nov 90 pp 69-75

[Article by Zhang Yansheng (1728 3601 3932), Department of Economic Management, Central College of Finance and Monetary Studies: "Study of Relationship Between Trade Strategy and Economic Development"]

[Excerpts] Trade protection clearly differs from trade policy under a system of trade liberalization. The strategies of trade protectionism and trade liberalization are ultimately the greatest issue of contention in economic development and international economics. They not only relate to the level of a country's economic development, foreign economic development pattern and strategy, the level of domestic productivity development and differences between international ones, issues of the international development environment and domestic economic conditions at different time periods, but furthermore also relate to the complex nature of the antagonism and transformation between two different trade strategies at different time periods. Therefore, it is terribly important in studying China's trade development pattern and trade policy as well as future reforms and opening to the outside world to explore the interconnected relationship between trade protectionist strategies and economic development from comparative historical and contemporary viewpoints. [passage omitted]

IV. China's Choice of Foreign Development Strategies and Stimulation Mechanisms

To a large extent, what trade strategy and stimulation mechanisms China should adopt or create depends on its present development base and future development pattern. The following points are extremely important.

1. The role of trade in China's economic development

The economic development experiences of different countries shows that the role of trade in economic development is seen mainly as a country's own pattern of production and trade based on comparative interests so as to ensure the continuous growth of resource utilization efficiency and trade income rates which motivate the entire economic development process. However, using trade protectionist strategies for a time, a less advanced industrialized country or developing country can establish its own industrial structure or comparatively advantageous industries with export products of stronger foreign competitiveness and higher added value to avoid a worsening of its own trade conditions and international revenue, allowing efficient trade growth to

be the generator for overall economic development. This process includes introduction and effective use of foreign resources; importation and transformation of technology into a productive force for the country in question; rational use of resources and creation of highly efficient market-based trade stimulation mechanisms; usage of imports, import substitution, and export encouragement development avenues to generate increased productivity, with gradual movement toward a higher stage of development to attain the dynamic effect of comparative interest; and structural transformation of departments and regions according to supply and demand changes so as to improve supply and export efficiency and income.

Nevertheless, a huge developing country such as China should both learn from successful development experiences and explore economic development patterns suited to its reality. For example, I believe that it is worth studying and learning from such items in the East Asian model as steady maintenance of open-door policies, stressing adjustment mechanisms for actually balancing exchange rates, gradually adjusting and reducing economic distortions produced by trade protectionist barriers in line with strategy shifts, having government interference in stages plus continuously increasing the degree of economic and trade liberalization, and creating rather rational industrial relations structures and input-output chains. However, the overall framework of the east Asian model with its external dependence and tendency to have all policies export-oriented has many limitations. It cannot be a development model for a large country. In this regard, the early economic development stages of industrialized countries are worth our further study. They did not depend on particular open-door economic and trade liberalization strategies but rather on staged and selective trade protectionist strategies to establish their own industrial systems based on higher productivity and technology transformation rates. This was in order to complete a corresponding structural transformation and have greater foreign competitiveness for the countries in question.

Therefore, I believe that as a huge developing country, China must decide on an economic model that gives precedence to the domestic market, helped by the foreign market. Trade as a generating mechanism in China's economic development is manifested mainly as: using foreign trade to deepen China's input-output structure and accelerate structural transformation; using participation in international divisions of labor to spur on development of China's labor-intensive industries and comparative advantage overall; using international exchanges to improve China's resource utilization efficiency and business management levels; using international competition to improve accelerating the transformation domestic stimulation mechanisms and key productivity elements. In sum, the core of the matter is continued improvement of resource efficiency in China's economic system, not just purely higher income from trade, nor, even worse, having everything serve income generation from exports. After turning China into a

relatively open economy, we cannot be highly trade dependent like smaller countries.¹ Thus, increasing productivity and transforming the trade structure are extremely important to really activate the economic development and trade growth mechanisms.

2. Basic premises for transforming trade protectionist strategies

I believe that the primary criteria for whatever trade strategy China does adopt is the ability to engender sustained productivity. The basic precondition is formation of a market system suitable to long-term development and indirect adjustment and control measures. Although one can prove that a trade liberalization strategy guided by exports is superior to an import substitution trade protectionist strategy from the perspective of overall comparative efficiency, trade protectionist strategies still are necessary at certain stages of actual development. With reference to China, although we have implemented a policy of being open to the outside world, what we have adopted still is a trade protectionist strategy.

First, China's present pluralistic development structure determined the applicability of a trade protectionist strategy. There are relatively great differences between international standards and various contemporary industrial norms in China's economic structure. Thus, there are obvious disadvantages to foreign competition. Due to long-term neglect, China's labor-intensive industries based on ample labor resources still are weak in terms of overall comparative advantage and foreign competitiveness. Long-term stagnant basic industries such as electric power, energy resources, and transportation, have become serious bottlenecks to development. Under these circumstances, it is hard to change all at once a trade structure based on exporting mainly primary commodities and primary manufactures and importing mainly high-level manufactures and intermediate commodities. Furthermore, export growth is directly affected by insufficient domestic supplies. Likewise, there is little demand elasticity abroad for excessively produced or excessively supplied commodities. Although imports are affected by excessive domestic demand and rigidity, there still is great potential for imports. Thus, it is hard to maintain international revenue without trade protectionist policy restraints.

Second, China's present lack of a market system and market competition mechanism have determined trade policy trends. The system in China has not been transformed by implementing reforms and opening to the outside world after a long-term directed planned economic system. The market has no place. Adjustments and controls are inflexible. Problems such as chaotic motions and dull responses have made us use more permits and other numerical control measures instead of indirect control measures to ensure a relatively balanced external economy. Under such conditions, it is necessary to adopt trade protectionist strategies for a time to

ensure a smooth transformation of the economic system and the economic structure.

Therefore, the key to promoting a transformation of China's trade strategy and creating an effective stimulation mechanism lies in: first, creating a relatively stable economic environment; and promoting the creation, development, and perfection of market mechanisms. Second, improving macroeconomic adjustment and control mechanisms, not only seeking to create and readjust policy advantageous to the aim of stable long-term development trends, but also to creating a relatively rational market-based price system. Third, transforming and readjusting microeconomic motion mechanisms, making them able to react quickly and rationally to effective trade stimulation mechanisms.

3. Creating Effective Trade Simulation Mechanisms for China

At present, transforming China's trade strategy in the main does not lie in whether to get rid of trade protection or interference, but in how to create an effective trade stimulation mechanism. This includes the effectiveness of mechanisms such as selective and staged exchange rates, customs taxes, permits, quotas, and other policy measures.

In the process of deepening reforms and stabilizing domestic economic policies, China should first gradually adjust exchange rates to realistically balanced levels. All countries have experienced this important step in development. It depends not only on effective coordination of fiscal and monetary policies, but also on economic departments' degree of response to relative price adjustments. In the 1970's, the RMB [renminbi] appreciated 67 percent against the United States dollar. An internal cause was the guiding thinking that pegging the RMB slightly higher would ensure its value. Since the 1980's, greater attention has been paid to the role of trade in economic development. Thus, the RMB began to be steadily readjusted downward. This downward readjustment rate was 32.9 percent in 1985-86, and 26.8 percent at the end of 1989. There is still much controversy regarding the actual effect of this readjustment. However, I consider it to have been a relative price readjustment, a component part of domestic policy reform and deeper economic system reform. It is truly important in creating effective trade stimulation mechanisms.

Other important component parts of trade stimulation mechanisms are protectionist customs tariffs, trade subsidies and permit systems. Regarding the first, the mechanism is effective through raising relative prices on imported commodities, directly reducing the number of imports, indirectly reducing the number of exports, directly stimulating the expansion of import substitution industries, indirectly stimulating the expansion of non-trade industries, thereby affecting resource deployment and utilization rates. Because customs tariffs greatly

affect resource deployment and trade growth, tariff policies should be divided into different grades and chosen seriously.

Because an import permit approval system is a kind of numerical control measure, it is more severe in limiting trade than customs tariffs policies. In reality, a multiple class permit approval system cannot ensure the effective growth of trade departments. Instead, it exaggerates relative price distortions and assists some profiteering of a nonproductive nature. For example, some will go canvassing, offer bribes, let merchandise change hands, take sales commissions, or engage in black market business transactions in order to get permits. Thus, important parts of creating effective trade stimulation mechanisms are strict management of a permit system, gradually reducing numerical control measures in line with deeper reforms and development, and replacing them with customs tariffs and other price regulation measures.

Trade subsidies are another trade stimulation mechanism. Whether production or export subsidies, either one encourages production or export growth. However, subsidies lose their role as a trade stimulation mechanism if it is hard to maintain trade without giving subsidies when export departments' average foreign exchange earning costs are higher than their foreign exchange earning incomes. Subsidies become distorted restraint mechanisms. Therefore, an important long-term economic development task for China is to readjust the role of stimulation mechanisms, turning them into policy tools that truly stimulate highly efficient trade and engender greater activity.

Footnote

1. Comparative studies show that China is highly interdependent at present. I believe that this relates to actual questions of international comparisons and cannot prove the place of trade or degree of openness.

LABOR

Labor Official Comments on Unemployment Problems

91CE0204A Beijing JINGJI GONGZUO TONGXUN
[ECONOMIC WORK NEWSLETTER] in Chinese
No 20, 31 Oct 90 pp 2-3

[Article by Li Boyong (2621 0130 0516), vice minister of labor: "Appropriate Resolution of the Unemployment Problem"]

[Text] Resolution of the unemployment problem has entered a new phase, along with improvement and rectification, and development of deepening reform. This new phase is symbolized by closely linking resolution of the unemployment problem with deepening reform and structural adjustment. Those involved have already done a great deal of arduous work to this end,

with considerable success. But at the same time, we should take notice of remaining problems where the work so far has not been inadequate.

The first problem is that there are some feelings of carelessness and laxity in thought and work. Some comrades see the unemployment of the past several months as taking a turn for the better, which has engendered a blind optimism in their thinking. Therefore their work is somewhat slack, and relevant policies do not receive close attention. Because ideological work and practical work are not done together, some leading enterprises which have been shut down for long periods of time are growing increasingly concerned as to whether they will ever be able to resume production, and they lack confidence that the situation will be reversed. Some cadres and workers have thoughts of waiting, depending and wanting. The workers look to the cadres, the cadres look to the plant directors, the plant directors look to the department responsible for the work, one level looking to another, waiting for help from the next higher level.

The second is that in the work, different areas are not closely linking resolution of their unemployment problems with adjustment of their industrial, product and enterprise organizational structure. They lack classified direction, and their blindness is great. At the same time they are carrying out preferential policies concerning enterprises which temporarily shut down. During the period of improvement and rectification, we should adjust enterprises that are incompatible with industrial policies, have poor management bases, have suffered losses for a long time, or whose products are high-priced yet of second-rate quality, and thus are unmarketable. We should give them a boost and change them from moribund enterprises to revitalized enterprises. In order to reduce temporary shutdowns and unemployment, some areas require enterprises to keep producing unmarketable goods, which increases their losses. To resolve these areas' problems, some localities are using administrative methods to set up checkpoints, stipulating that commercial departments can market local commodities, and in addition have been giving preference to the products of these enterprises, again violating the commodity economy's rules regarding local protectionism.

Third is that the basic livelihood of a small part of the unemployed and retired workers are still not conscientiously being guaranteed.

Looking at the above conditions, there is still a great deal of work to be done on the unemployment problem. For the remaining problems, resolving those difficulties, it would be better to appraise them somewhat more fully, view them as somewhat serious, do the work a bit more thoroughly, and more painstakingly. In light of these remaining problems, we must continuously do a good job of the work relevant to the State Council's notice, to ensure the foundation for the basic livelihood of the unemployed, according to the need to adjust domestic economic structure, classify the guidance for enterprises which have shut down, implement policies

which differentiate between localities, and further turn unemployment continuously in a new direction.

1. Leadership at every level must give constant attention to quickly resolving the unemployment problem for a stable economy, a stable society, and a stable public spirit. Experience has demonstrated that every time leadership favors a locality with beneficial measures, the unemployment problem there takes a turn for the better, and the situation stabilizes. Therefore, leadership at every level should constantly place a high degree of emphasis on mastering this task, guarding against and overcoming carelessness and lapsing into a slack mood. They must see that the longer this problem is put off, the harder it will be to resolve. Some workers who have been unemployed for a long time are weakening in their ability to withstand it, either economically or ideologically, so we must be fully prepared for any problems which may arise. The problem of unemployment runs through the entire process of improvement and rectification, and preparing to combat it will take a long time. Administrative bodies dealing with the unemployment problem will not eradicate it easily, will have to take an interest in dealing with related questions, promptly resolving and coming to grips with changes in those enterprises which have shut down and with their workers thinking and morale. They must strengthen their political ideological work, stimulating widely among the workers a sense of being masters of their responsibilities, overcoming their thoughts of waiting, of dependence, of demanding, and cultivating their desire to provide for and help themselves by engaging in production. They must publicize advanced representative cases, and exchange advanced experiences. At the same time they must always keep good statistics on unemployment.

2. Link dealing with the unemployment problem with adjustment of the organizational structure of industries, products and enterprises, putting maximum effort into both structural adjustment and raising economic benefits. We must be aware that such situations as slumping markets, declining industrial production, and a growing number of shut-down and scaled-back enterprises are a reflection of the effects of stages in improvement and rectification, and are the results produced by restraining economic overheating, controlling inflation, adjusting the lack of balance in supply and demand, etc. In a certain sense, the appearance of shut-down enterprises is by no means solely a negative influence, it is equally a manifestation of rectification's successes, and at the same time is a step forward in creating and providing opportunities. It should be noted that a substantial number of those enterprises which were shut down or cut back have been revealed to have originally had some flaws in their enterprise structure, such as a lack of product variety, inferior quality, low standards and little ability to compete. Also revealed were problems in the enterprises' organizational structure. The improvement and rectification is actually a one-time economic adjustment; a well-done adjustment of the economic structure is not only an important task in improvement and

rectification, it is also a basic means of resolving the problem of unemployment. Improvement and rectification will tame economic overheating, while simultaneously create the opportunity to resolve unemployment. Every locality should seize this opportunity and, according to the requirements of the policy on state-run enterprises, do investigative research, providing leadership based on locally differing conditions, and make positive adjustments to the product structure, enterprise organizational structure and structure of the labor force. For that small number of shut-down or scaled-back enterprises which have shown long term deficits, have funds insufficient to lower their debts, have not finalized their product designs and have no prospects, there should be a determination that they be closed and transferred. There should be increased attention given to bringing to bear measures which use enterprise annexations and mergers to assist shut down or cut back enterprises break out of their predicament. Perfect relevant policies, positively strengthen guidance, concretely aid and support even more mergers of superior enterprises with inferior ones. This will thoroughly resolve the problems through such methods as annexation and merger. In policy directions, there must be a moderate amount of preference given to those shut-down or scaled-back enterprises which will be allowed to continue existing and developing, creating the external conditions for starting up their production and management, while not putting those enterprises in a position of production dependency; key enterprises must be protected, while taking general enterprises into consideration as well; there must be an emphasis on fiscal guarantees for large and medium-sized enterprises, with an equal emphasis on guaranteeing the safety of enterprises with special difficulties. In view of all this, every locality must, through a variety of channels, exchange experiences in integrating structural adjustment into dealing with the problem of unemployment, to further the resolution of that problem.

3. In concert with adjustment of enterprise and product structure, strengthen management of the labor force, paying close attention to straightening out the utilization of out-of-plan labor, and doing a good job of regulating surplus and deficiency. In clearing up the use of out-of-plan labor, the chief task is to bring about the return of those farm workers who have entered the cities in the past few years. Labor departments at every level will, according to realistic production needs and through various means, develop the regulation of surpluses and deficiencies in the labor force, arranging first of all for placing unemployed personnel in jobs. At present, one reason for the slow progress of structural adjustment is the lack of a way to place the staffs of those enterprises which should be closed down. This is restricting adjustment of the economic structure to a very great degree. Therefore, how to regulate the labor pool and what kind of policies should be formulated to accomplish this are key problems in our deepening reform of the labor system.

4. Continue doing all we can to guarantee the basic livelihood of unemployed and retired personnel, giving close attention to studying and perfecting the social insurance system. Local conditions center on assurances of basic livelihood; one can advocate setting up mutual assistance funds for enterprise workers, but these funds are not a form of relief: rather, they are loans, made use of by turnover. In this work, special attention must be given to resolving the straitened circumstances of those personnel who have been without wages or pensions for a long time, choosing a variety of means to raise the funds which will assure them a basic livelihood. In the first phase of this work, a new contradiction appeared: workers from enterprises which had ceased production were guaranteed a basic wage, but workers at enterprises still in production were also at this wage level, creating a situation where wages were the same for both the working and the nonworking. Some workers resented this, and others accepted it, while a small number of unemployed workers, unwilling to return to work, took their basic wages and went looking for other jobs. Each locality should formulate some appropriately varying provisions based upon their actual conditions.

The unemployment problem revealed another problem, i.e., the imperfection of China's system of social insurance. Governments and relevant departments at every level, in order to provide a basic livelihood for unemployed personnel, urgently raised huge sums of money through a variety of channels. However, this was only a temporary, one-time resolution, with no way of bearing the burden over the long haul. The way to fundamentally resolve the problem is to set up and perfect a system of social insurance. This is a basic measure learned from studies of the nation's long-term interests. It has appeared throughout similar problems of unemployment, that the system of social insurance will assure a basic livelihood for workers, and this demands deeper reform of the social insurance system. There are some glaring problems right now: one is that China's unemployment insurance for workers is applicable only to four kinds of workers in state-run enterprises (these are: workers in bankrupt enterprises; workers being retrenched from enterprises verging on bankruptcy during the statutory period of reorganization; workers released at the termination of labor contracts; and workers dismissed for violations of discipline). It does not include the unemployed in general, and there is a lack of basic funding to do so. There must be progress made in perfecting this situation, based on actual conditions. The second problem with the system is that some collective enterprises still do not participate in retirement and old age plans, so that after an enterprise has shut down or cut back its operations, there is no guarantee of a livelihood for retired workers, and no way of assuring the funding for it. This destabilizes workers' morale. Therefore, there must be an intensive study of the problem of collective enterprises' old age insurance plans, so workers in collective enterprises will be cared for after they are retrenched. Through deeper reform of

the insurance system, a "security guard" will be established for China's social stability and economic development.

Resolution of the unemployment problem is an important component of improvement and rectification, and of deepening reform. Appropriate resolution of the problems of personnel deployment and livelihood is an unavoidable duty of our labor departments. The massive efforts we have put forth in the current phase have already gained the full approval of various aspects of society and many workers. But the overall mission is still quite formidable; according to the State Council's requirements, we must do all we can in this work, striving to attain new successes.

Analysis of Unemployment Problems

91CE0234A Beijing JINGJI LILUN YU JINGJI GUANLI [ECONOMIC THEORY AND BUSINESS MANAGEMENT] in Chinese No 6, 28 Nov 90 pp 71-76

[Article by Zhou Zhuanlong (0719 0278 7893), edited by Wang Bifeng (3769 4310 1496): "Summary of China's Unemployment Problems in Recent Years"]

[Excerpts] Since implementing reforms and opening to the outside world, and as the nation's economy has developed, unemployment problems have changed from being "hidden" to "overt." They have become a major issue of concern to all sectors of society. This article will summarize the correct views on China's unemployment problems, the types of problems seen, and how to adopt certain measures to deal with them. It is offered as of reference value to theoretical research.

I. Developments in China's Employment Situation and Existing Problems

Unemployment issues are related to employment issues. With regard to China's labor employment issues, some have noted the development of a three-stage system. They point out that in the three decades since the founding of the country, work on China's labor employment generally has gone through the three following development stages. The first stage, from 1949 to 1965, saw resolution of the problem of employing four million unemployed and more than 14 million newly attained working age employees. The second stage, from 1966 to 1976, was a decade of turmoil. More than 10 million youths awaiting employment were set free, bringing upon society enormous employment pressures. The third stage, from 1971 to 1986, placed 73.21 million freed youths awaiting employment and new working age laborers by implementing new employment policies. They accounted for approximately 55 percent of China's total urban employed. On average, 7.32 million people were placed annually.¹

Other comrades have noted problems with the elementary structure and low effective use of China's labor force. The so-called elementary structure is mainly seen in four respects: First, the educational structure of the

labor force is low. This naturally hinders general application of science and technology in the economy and affects the process of modernization. Second, there is a low level industrial mix of the labor force. This is mainly seen in that there is over-employment in the primary industries where a majority are semi-unemployed, while there is under-employment in the tertiary industries. Third, there is an irrational ownership structure for employing the labor force. At present, more than 70 percent of China's urban workers are attracted to employment in units owned by the whole people because of the "iron rice bowl." Very few go to collective and individual economic units in urban areas. This perhaps has been considered to be a rather high level ownership system when it actually is not. Given that at present China's productivity development levels still are rather low and extremely uneven, such an ownership structure for employing labor goes beyond the conditions to which it itself can adapt. Thus, it is disadvantageous to promoting the development of social productivity. Fourth, the labor force is irrationally distributed. This is related to China's population distribution. Data analyses show that China's population is greater in the east than in the west, while resources are exactly the opposite—greater in the west than in the east. Of course, most of the population and labor force are concentrated in southeast China, causing relatively scarce resources to be all the more tight and employment issues all the more obvious. [passage omitted]

Still other comrades summarize China's unemployment problems as: surplus labor force, structural imbalances, rigid distribution system, commercialized employment, and low enthusiasm for work. In particular, 1) Within enterprises, the total labor force is excessive. Namely, current labor force and production material ratios seriously deviate from rational ratios needed for production. The labor force is relatively excessive while production materials are relatively in short supply. Thus, the labor force's marginal productivity is zero or even negative. 2) Within enterprises, labor forces deviate to different degrees from the rational mixes needed by production. 3) The labor force distribution mix is rigid. We seldom regard the labor force as a type of economic resource. Things are set once one is placed in a particular enterprise, an enterprise's type of production work, or post. It is not only hard for one to move outside an enterprise, but even hard to move within one. Thus, there is a rigidity to the distribution system. 4) Worker labor employment is commercialized. It is now increasingly common behavior to select work posts according to pay rates. 5) Workers have little desire to work.²

In addition, others use rigidity to summarize China's present employment problems. They note: employment rigidity refers to the economic phenomenon in modern life of the problem in rationally reducing and striving for full social employment of workers. Cyclical economic fluctuations have almost no effect upon employment. Employment seldom exhibits negative growth. It clearly is rigid. The reasons are: 1) China is a socialist country

with public ownership of production resources. Laborers and production materials together implement the principle of from each according to his ability, and to each according to his work. Thus, it has become a right and proper matter to employ citizens old enough and able to work, including those who are not fully able to work. 2) China's excessive labor supply and employment problems have become the most irritating economic issues. In 1979, there was the greatest surge of people "awaiting employment" in any time since the country was founded. The number of people who needed immediate job placement was 15.38 million. In that year the state placed more than seven million people under the systems of ownership by the whole people and by collectives, which already exceeded the critical point for which capital could accept labor. 3) China is in a stage of surging population growth. In 1987, births to newlyweds reached a new peak, and the natural population increase rate again showed a clear rise. 4) According to predictions by the Ministry of Labor Affairs, during the Seventh Five-Year Plan, approximately 100 million people nationwide will enter the labor force, of which, 30 million will be in urban areas and 70 million in rural areas. In line with the continued deepening and perfecting of economic system reforms, as the agricultural labor force grows in rural areas this will cause a surplus of more than 100 million laborers. The enormous surplus will be transferred to nonagricultural sectors. Regardless of the state's aggregate assets there is no way to effectively absorb and utilize these people in the near term. Thus, it will be difficult to transfer them to nonagricultural sectors.³

II. A View of Unemployment Problems Under China's Socialist Conditions [passage omitted]

Others contend that unemployment is a phenomenon that exists in socialist economies; it is a necessary product of socialized production in a developed commodity economy. First, production technology continuously rises as science and technology progress and society's productive forces develop. The labor force will be correspondingly reduced, and a portion of it must drift away from the production process. Second, readjustment of the industrial mix naturally engenders structural changes. As traditional industries increasingly decline and burgeoning industries continuously rise in their place, a portion of the labor force will be sifted out in two-way employment choices, becoming unemployed. Third, under commodity economy conditions, any time that backward enterprises are weeded out, new ones will arise. Workers unsuited to production will be weeded out, and those who possess new skills will be brought in. Thus, bankruptcy of enterprises and unemployment of laborers are the result of market competition. They are the cost of perfecting the elements of production and upgrading the industrial mix.⁴

Other comrades prove the necessity of unemployed in China from two production ratios, namely, macroeconomic controls and scientific and technical progress.

They note: 1) A strong contrast brought about by undeveloped social productive forces and the transitionally inflated population, which causes a wide gap in labor force supply and demand. Eliminating unemployment problems and taking in and utilizing much of the surplus labor force depends not on people's subjective desires but on the two productive factors of material and people, as well as their joint utilization rates. The level, development scale, and rate of material production are the ultimate decisive factors in eliminating unemployment and taking in and utilizing the surplus labor force. This is because the surplus labor force can be given employment opportunities only by developing and using them. Material production also is restricted by many factors. It cannot leap ahead at will, which means that taking in and utilizing much of the surplus labor force is a slow and lengthy process. 2) There is an imbalance between society's use of production materials to fulfill production consumption demands and its use of consumption materials to fulfill individual consumption demands, as well as between the ratios used by various industries within these two major categories. This causes slumps in some industries and enterprises, and a great increase in the number of the hidden unemployed. 3) The need for labor decreases and the relative surplus force grows increasingly as science and technology progress rapidly and are generally applied, and as the organic composition of capital increases. Given such a state, China must not only accelerate development of new industries and state-of-the-art technology, and increasingly apply science and technology ever more quickly to production, but a great amount of relative surplus labor is unavoidable.⁵

III. Types of Unemployment Problems in China

Some have noted that China's unemployment problems take hidden and overt forms. They note that so-called unemployment is a separation of production materials and laborers who have the ability and right to work but cannot constitute a real labor force. Such a separation is manifested in two basic ways: one is clear. It is visible unemployment that constitutes reserve laborers in the process of social production. Hidden unemployment is the following. 1) The great army of hidden unemployed in rural areas. Two-thirds of the surplus labor force must find work elsewhere since implementing the joint contract responsibility system in rural areas along with greater productivity. 2) Fake employment in urban enterprises, seen in arbitrarily expanding the number of workers, nominally upgrading and reposting workers, and lacking set labor standards. Thus, people float between jobs and three people do the task of one. Some people have no jobs at all. They are the hidden unemployed. 3) Another type of hidden unemployment is because of poor management, low operating times, working only half the year, or frequent down times due to other management factors. 4) The irrational labor system creates problems for floating personnel and workers making choices. Specialized technicians in various areas do not put to use what they studied. They are posted in areas other than where they excel, such that

they lose enthusiasm for working and their enterprising spirits. 5) Prejudices against intellectuals means inappropriate use of them. Talents are wasted. This is another form of "hidden unemployment."⁶

Some comrades, relying on the direct causes of unemployed labor, divide unemployment into the three categories of total unemployment, structural unemployment, and floating unemployment. Total unemployment is that which is due to a greater gross supply of labor than demand. Structural unemployment is that brought about by a disequilibrium between the quality or regional structure of the social labor force and the demand structure for it. Floating unemployment is shifting unemployment caused by various hindrances to the labor force in its course of circulating.⁷

Still other comrades summarize unemployment as the idle population. They note that it falls into the three categories: the originally idle, the newly idle, and the recurrently idle. Of these, first, the originally idle refers to those who have not changed work units from the time they first joined the work force until now, plus those in the labor force who have positions but no work and lack the most rudimentary production factors. This group largely is the product of improved technology and the application of commodity economy laws. Of this group, some were pinpointed as belonging to the originally idle population from the time they commenced working. Because of the irrational employment system, they are concentrated mainly in rural areas. Others are scattered in units of enterprises owned by the whole people and urban collectively owned enterprises.

Second, the newly idle population refers to those commonly called youths awaiting employment. It is said that they are new because this segment of the population originally had no production factors to offer. Since leaving school, they flooded into society, converging into idle forces. They are characterized as being young in age, great in number, and rather well educated. Thus, they are a malleable, rather high-quality idle population. They also are a rarely seen production force for socialist economic construction. This is a great waste of resources, personnel, and time to society, enterprises, and individuals, because this segment of the population has not been rationally mixed with production factors quantitatively or administratively.

Third, the once again idle population refers to that segment of the population which finds itself idle for a second (or more) time. The majority of this group either is moving from agricultural to nonagricultural areas, or is an imperceptible group in units of enterprises belonging to the whole people. The group generally is divisible into two categories, active and passive. The first subdivides into groups (A), (B), and (C): (A) refers to the laboring population whose primary goal is to leave rural areas; (B) refers to those who "jump out of the pen" into more comfortable units; (C) refers to those who actively move to more suitable work units for themselves but at present are idle. The passive idle subdivide into

(D) and (E): (D) refers to those who cannot or will not try to adapt to their original or new position. (E) mainly refers to those laborers who cannot adapt to the technological revolution and new social demands. They are characteristically rather low educated. This characteristic fetters their potential adaptation to new environments while social progress compels them to enhance their potential. The result of these dual pressures is more idle population.⁸ [passage omitted]

IV. Measures for Handling China's Unemployment Problems

Many comrades have discussed the issue from various aspects and proposed certain policy measures. They are summarized as follows.

A. Have a moderate unemployment rate, with hidden unemployment becoming overt unemployment.

In several senses, reforming the labor system means gradually turning hidden unemployment into overt unemployment. The reasons are:

- 1) Overt unemployment is beneficial to competition. It destroys the long-term egalitarian "iron rice bowl" and "big mess hall" concepts.
- 2) It is beneficial to improving productivity rates in enterprises, and thereby is beneficial to raising the economic results of society as a whole.
- 3) It is beneficial to establishing the principle of two-way choices for enterprises and workers. It changes the dull lifetime job assignments in which workers cannot demonstrate what they excel at and enterprises cannot select talent in line with their needs to be self-reliant.
- 4) It is beneficial to continuously improving work force quality and enhancing work on the "four haves."
- 5) It is beneficial to scientific and technical progress.
- 6) It is beneficial to expanding avenues for employment.
- 7) It is beneficial to perfecting a market system. Establishing and perfecting a labor market means more than realizing the value of labor and creating a self-demanding rational labor pricing system. It also means clarifying the reasons behind and premises for material prices.
- 8) It is beneficial to controlling the population.
- 9) It makes hazy things clear. It is beneficial to ameliorating relations between the government and the people as well as to reducing outlay and increasing accumulation.
- 10) It is beneficial to the development of socialized causes. Having overt unemployment requires the help of a series of socialized ancillary measures to make socialized causes develop alongside.⁹

B. Implement an on-the-job system of awaiting employment.

The process of creating a system of waiting for employment while on the job is a process of consciousness-raising in enterprises. This is because unemployment in China's enterprises objectively exists at present, yet not everyone can soberly realize it. Although some can recognize the problem, not all have the courage or resolve to solve it. Considered from the angle of developing production, an on-the-job system of awaiting

employment would separate out those who are nonproductive or not fully productive on the job due to various factors. It would lower production costs and raise labor productivity. In terms of reconceptualization, creating such a system conflicts with the negative "eating from one big mess hall" concept that has gradually seeped into people's minds over more than three decades. Because unemployment problems are of a social nature, they can only be solved with social strength. The outcome of their resolution is to use both economic and legal measures to move the problems of unemployment and awaiting employment from enterprises to society. Namely, this means implementing a labor unemployment (awaiting employment) system. Specifically, it includes three things: First, a social admission system. Second, a social security mechanism. Third, a social arbitration system.¹⁰

C. Solution lies in deepening reform of labor management system.

Considering the present situation, the fundamental way to resolve China's employment problems lies in deepening reform of the labor management system, first by changing hidden unemployment into overt unemployment, and second, by having moderate unemployment on a overt base. This would rationally utilize unemployment levers and further perfect the mechanism of assigning labor resources.

So-called moderate unemployment refers to maintaining a moderate reserve of labor, or to having an appropriate unemployment rate. Labor is a commodity, so it involves a question of reserves, just like other commodities. Provided that the amount reserved does not exceed the demand for circulating labor, then it can be considered as normally required, which also can be called moderate. Maintaining moderate reserve labor in the form of unemployment ensures an essential precondition for smooth social regeneration under conditions of a commodity economy. This is of tremendously important significance for socialist economic development.

So, how is moderate unemployment attained? On the one hand, a way must be found to expand avenues for laborers to find employment. On the other hand, a way must be found to reduce laborers' demands for employment. Specific ways are: 1) Labor self-absorption and regeneration by enterprises, industries, and departments. That is, adjusting excess labor industry-wide or department-wide, improving labor and organizing service sectors within enterprises (or industries or departments) that can absorb some redundant personnel. 2) Readjust the economic mix, broaden avenues for employment, readjust the ownership system industrial mix, develop service sector and labor-intensive industries, and absorb surplus labor employment on a grand scale. 3) Reduce work hours. Increase the number of shift rotations, and absorb more labor employment. 4) Use preferential policies and economic means to attract migrating population. 5) Strive to reduce total employment volume

demand, strictly control population birth rates, and bring the labor increase rate largely in line with economic growth rates.¹¹

D. In the short term, "walk on two legs;" in the long term, establish systems for employment competition.

Some feel that the only way to escape from the present unemployment conundrum is to divide it into two steps. In the short term, implement a policy of walking on two legs by having enterprises be self-absorbing and society appropriately readjusted, with emphasis on the former. Specifically: 1) develop new production items, develop a service sector, and engage in multiple operations and horizontal linkages; 2) liberalize current policies, and permit employees to resign and engage in other occupations and enter the collective and individual labor ranks; 3) carry out reschooling and technical training, allowing squeezed out surplus personnel to master new technologies and watch for the chance to be reemployed; 4) have a system of "awaiting employment in-house," in which enterprises are responsible for basic living expenses of surplus personnel while they await employment.

From the long-term view, the fundamental way to resolve the issue of redundant personnel lies in introducing enterprises to employment competition. By weeding out winners and losers, the redundant personnel will not only leave their production posts. They will depart from their former enterprises and look for new employment in society. This can only be a long-term goal, however, because the measure requires certain preconditions. First, a relatively complete labor market must be in place in which enterprises and laborers freely are able to make two-way choices in the marketplace, thereby having rational utilization and circulation of the labor force as well as the most perfect match between laborers and production materials. Second, an "unemployment law" must be formulated and an unemployment system in place, with publicized and socialized unemployment, thereby meaning legal protection for the public unemployment of surplus personnel. Third, a social security system must be perfected that offers unemployment compensation; expedited separation of the employment, welfare, and social security system; and unemployment security covering all society, thereby changing the notion of secure and safe employment into secure employment and safe unemployment. Fourth, the fixed work and lifetime cadre systems must be dismantled. This includes putting all employees under contract instead of hiring and assigning students from major institutes and schools.¹²

E. Expand labor exports.

Exporting labor is now a universal practice in international economic and technical cooperation. It is one of the three foreign-exchange earning pillars along with import-export trade and tourism. Its particular significance with regard to China lies in: 1) Accumulating funds. By expanding labor exports, China can spur on equipment and material exports as well as earn labor

service fees. 2) Introducing advanced technology and management experience. China can learn the advanced technology and management experience of other countries by sending big groups of laborers to work in the industrially advanced and developing countries, or jointly sending them as part of a contract with industrially advanced countries to third countries to undertake contracted construction projects. 3. Enhancing international friendship and breaking down existing unequal international economic relationships.¹³

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POPULATION

XINHUA Reviews Tibet's Population

OW2602095691 Beijing XINHUA in English
0705 GMT 26 Feb 91

["Tibet Backgrounder (14): Population"—XINHUA headline]

[Text] Lhasa, February 26 (XINHUA)—(This is the 14th in a series of reports to celebrate the 40th anniversary of the peaceful liberation of Tibet—editor)

The Tibet Autonomous Region has a population of 2,196,010, according to China's fourth census, carried out in 1990. There are 2,096,346 Tibetan people, accounting for 95.46 percent of them. And 81,217 are Han people, accounting for 3.7 percent; the other ethnic nationalities number 18,447, accounting for 0.84 percent.

Compared with the statistics of the third national census, held in 1982, the Tibetan population has increased by 309,802, or 17.34 percent.

Before the peaceful liberation of Tibet in 1951 the total population of the region was 1.05 million. But, as a result of favorable government policies and measures encouraging births in Tibet since then, the population has increased rapidly.

In 1965, when the Tibet Autonomous Region was officially set up, the population's natural growth rate was 8.1 per thousand, and in 1989 it climbed to 18.4 per thousand.

The population growth resulted from political, economic and cultural development of Tibet. The gross industrial and agricultural production value in 1958—before the democratic reform—was only 202 million yuan.

However, after the reform Tibet made a leap in regional development. The gross industrial and agricultural production was valued at 1.2 billion yuan in 1990.

The government has been implementing free medical service for Tibetans and medical groups have been sent from every province to the region. There were 1,008 medical centers in Tibet by the end of 1989, with 5,355 beds and 10,062 staff members.

Tibetan children's height increased at an average of five cm every ten years after liberation. The average life span of the Tibetan people has increased to 65 years from 35 years before liberation.

AGRICULTURE

Analysis of Grain Circulation System Reform

91CE0261A Chongqing GAIGE [REFORM] in Chinese
No 6, 20 Nov 90 pp 116-120

[Article by Cui Bingzhe (1508 4426 0772): "The Reform of the Grain Circulation System of China"]

[Text] I. The Basic Situation of Reform of the Grain Circulation System

Reform of the grain circulation system in China has gone through roughly three stages since the founding of the People's Republic: In the initial period of the PRC's founding, we implemented the free market system under the leadership of state-run commerce; from 1953 to 1984 we implemented the state unified procurement and sales system; from 1985 to the present we implemented the multi-channel grain management and the "dual-track" grain pricing system in addition to the contract procurement system. The current grain circulation system was formed gradually following the Third Plenary Session of the 11th CPC Central Committee. This reform emphasizes the commercialization of agriculture, the operational mechanism of markets, and arousing the enthusiasm of grain farmers.

A. Readjusting procurement prices. China's grain procurement prices basically remained unchanged between 1965 and 1978. The price level was excessively low, and the price difference between industrial and agricultural products was widened. Therefore, the state began in 1979 to readjust the procurement prices of grain. After four readjustments, the unified procurement prices of six varieties of grain increased 20 percent in that year, and the margin of price increase for above-quota procurement also increased from 30 to 50 percent. In 1985, the procurement prices of grain were changed again to be calculated in accordance with the "inverse 3:7 ratio" (namely 30 percent unified procurement price and 70 percent above-quota procurement price). Consequently, the actual procurement price of grain increased 17.9 percent as compared to 1979. After further readjustments, by 1989 the "inverse 3:7 ratio" prices of four major varieties of grain increased another 31 percent over 1985. Comparing 1988 with 1978, the general index of grain procurement prices (including negotiated and market prices) increased 174 percent.

B. Readjusting downward the procurement base and changing unified procurement to contract procurement. After reducing the procurement base by over 7.5 billion kg in 1982, the state changed the unified procurement of grain to contract procurement and continued to reduce the amount of the procurement. Between 1985 and 1987, the reduction was about 25 billion plus kg.

C. Enlivening the grain market. While readjusting the procurement price of grain, the state decided in 1983 to allow all localities to engage in multi-channel operation after fulfilling their task of unified state procurement.

After the "dual-track" grain pricing system was introduced in 1985, the state stipulated that the contract of grain procurement covers the four varieties of paddy, soybean, wheat, and corn and that the scope of market regulation be further expanded. In 1989 the amount of grain sold in country fairs increased 71 percent as compared to 1979, and the total amount of grain sold to the state at negotiated prices increased 9-fold.

D. Implementing the "three-linkage" policy for contract grain procurement. To ensure the fulfillment of contract procurement, the state decided in 1986 to give grain contractors 4.8 million tons of chemical fertilizer (which was increased to 7.92 million tons in 1989), 1.5 tons diesel fuel, and 10 percent of advanced payment, providing grain farmers some economic compensation (a subsidy of about 4.8 fen for each kg of grain).

E. Reforming the grain management method. The state began in 1982 to implement a management method under which the central government signs contracts with local governments in regard to grain procurement, sales, and transfers. This has clarified the relations of responsibilities, rights, and interests between the central and local governments and between different localities. Under this method, local governments are authorized to maintain an overall balance and regulate local grain supply within the jurisdiction of their contracts.

Through the above reforms of the grain circulation system, China has substantially reduced grain farmers' burden and increased their income; alleviated to a certain degree the state's pressure and burden related to grain income and expenditure; and aroused the enthusiasm of local and grain departments for improving management and doing a good job in using and managing grain. The increase of grain procurement price in particular has effectively accelerated grain production. Within a relatively short time, grain production reached new levels. After the great price rise in 1979, grain production increased 10 percent in the same year, much higher than the 3.3 percent average increase rate of the previous 30 years. After the second price rise in 1982, grain production reached the first new level—350 billion kg. Along with the extension of the effect of price incentive, grain output reached 407 billion kg in 1984—the second new level. In addition, reform of the grain circulation system has boosted the rural market, enlivened the rural economy, developed social productive forces, and provided conditions for the development of the national economy.

II. Reform of the Grain Circulation System in Retrospect

Since reform, China has made world renown achievements in the reforms of grain production and circulation systems, state grain reserves have increased, and a tight grain supply has been alleviated. However after 1985, due to insufficient experience, China became unrealistically optimistic about agricultural achievements in regard to guiding principles. Intoxicated with temporary

high speeds, we thought that China's grain problem was solved, resulting in the tendency of ignoring and relaxing our efforts in agriculture. Moreover, the state adopted many measures unfavorable to the continuous growth of grain and cotton production. Some new problems have also emerged in the field of circulation. They are manifested as the incoordination of speed and policy and the conflict of relations between the reform of the grain circulation system and the overall reform of economic system, and between the reform of farm and sideline product circulation system and the development of township enterprises. They are mainly as follows:

A. The price parities between industrial and agricultural products are irrational and the scissor differential has been enlarged, resulting in a decline in the comparative profits of grain production and dampening farmers' enthusiasm for production. The purpose of the state's 1985 decision to adopt the "inverse 3:7 ratio" pricing method for contract procurement was to even out the price difference between contract grain and above-quota grain. But prices of most grain still deviated seriously from its value. In 1985 only 27.2 percent of grain benefited from the 35 percent price increase, and the price of the remaining above-quota procurement declined 11 percent from the 1984 above-quota procurement price. Although the state raised prices twice, once by 13 percent and another by 28 percent respectively in 1987 and 1989, since the state implemented for many years a slanted industrial policy, prices of industrial and agricultural products are distorted, prices of agricultural products deviate from value, and comparative profits of grain production are the lowest. Between 1984 and 1988, the procurement prices of farm and sideline products increased 12.32 percent, but comparing 1989 with 1984, the increase rates of state-price agricultural means of production are 80 percent in urea, 158 percent in plastic film, 128 percent in pesticides, 113 percent in diesel fuel. The negotiated price of urea increased 140 percent and that of plastic film increased 184 percent. In short, the benefits of price increase of farm products are canceled out. According to a Henan Provincial agricultural and animal husbandry office survey, in 1988 the per-mu production cost of wheat increased 24.41 yuan as compared to 1987, of this farm production materials increased 12.76 yuan. In 1988 Henan had 72.07 million mu of wheat, farmers had to spend over 1.759 billion yuan on production costs alone, but could get only 624 million yuan more income as a result of grain price increase. After balancing the two, farmers had a net increase of 1.135 billion yuan in expenditure. Crop-growing profits are only one-seventh of secondary and tertiary industries; in addition, lowering grades and prices, or issuing IOU's, has dampened enthusiasm for grain production.

B. The reversing of grain procurement and sales prices has suppressed production, stimulated consumption, expanded the contradiction between supply and demand, and increased the state's financial burden. Between 1979 and 1988, grain procurement prices rose,

but the sales prices did not greatly change, making the price difference between procurement and sales become greater and greater. For every kg of grain sold at state price, the central and local governments have to subsidize 0.56 yuan. Xinhua News Agency reported that in 1978 the state spent 5.56 billion yuan to subsidize price differences caused by unified procurement and sales and that in 1984 the figure went up to over 32 billion yuan. During this six year period, 69.7 percent of the increase of state revenue was used to cover price subsidies. In 1987, China's price subsidies increased to over 50 billion yuan. At the same time, 40 billion kg of state-price grain caused farmers to lose 22.4 billion yuan of income. After deducting the management expenses of grain departments and the benefits of "three linkages" given by the state to the contract procurement of grain, farmers' burdens come to approximately 12 billion yuan. The state finance cannot afford it, and the masses of farmers are also unhappy. In many localities, increased revenue is not enough to cover increased grain subsidies. As a result, economically developed areas pay less and less attention to grain production while underdeveloped areas produce and transfer increasingly more grain and local financial subsidies become greater and greater. This is a serious problem. For instance, in the past grain was transferred from southern Jiangsu to northern Jiangsu. Now grain is transferred from northern Jiangsu to southern Jiangsu. In Shandong Province, grain used to be transferred from the eastern area to the northwestern area, and now grain is transferred from the southwestern area to the eastern area. The 11 coastal provinces of China, which used to transfer grain to other provinces, now have a shortage of grain.

Analyzing this from the link of consumption, low-price sales have stimulated consumption. After 1984 China's overall grain output stagnated, but grain consumption increased rather than decreased. Comparing 1987 and 1984, urban residents' consumption increased 5 billion kg, consumption by the wine-making industry increased 10 billion kg, and the amount of grain used for feed increased 3 to 3.5 billion kg. In addition, due to the low-price and unified-marketing policy of grain, some people do not treasure grain at all. On the one hand, farmers do not like to plant grain, so the state has to spend foreign exchange to import grain. On the other hand, waste of grain is a common sight in hotels and restaurants and the dining rooms of institutions and schools. In addition to the factor of education, one important factor is that consumers did not pay according to the actual production cost of grain.

Analyzing from the link of management, departments and enterprises dealing with state-price grain suffer from long-term losses which amount to 10 billion yuan. About 90 percent of such losses are related to policies, creating heavy burdens for state finance, banks, and enterprises. At the same time, since money is divorced from grain, the state cannot effectively transfer grain. After the financial affairs of grain were delegated to county financial departments, local power has increased but since

higher levels are still responsible for grain procurement and marketing, conflicts between the enterprise and the government have increased in regard to grain transfer and resulting losses. As a result, grain management departments have numerous problems. To balance the market, in addition to imports, every year the state has to buy grain at negotiated prices and sell it at state prices. The expenses of this part of grain, regardless of coarse or fine food grain, are covered mostly by local financial departments except for the 1.28 jiao of state subsidies per kg. To reduce burdens, local financial departments are forced to lean toward low-yield and low-value varieties. This will affect the optimization of commodity grain structure and the improvement of the people's living standards.

C. State regulation and control are ineffective. As the basis of the national economic basis, the commodity property of grain has become stronger. However judged from the current situation of production and marketing relations, the interrelations between production and circulation, production and reserve, middle financial organs, and prices not only are not smooth but condition and contradict with one another. The current predicament of local authorities and government organs at all levels is that they worry in lean years as well as in surplus years. When there is a poor harvest, circulation departments will have problems with procurement and transfer. When there is a bumper harvest, they will have problems with funds, storage, and transportation. Banks will have a short supply of money and high interest rates. Prices cannot be decontrolled nor controlled. When there is not enough grain, there will be panic buying. When there is too much grain, grain grade and prices will be forced down, grain farmers will "have problems selling grain," and the procurement department will either refuse to buy or simply "buy on credit." The state lacks a powerful and effective means of regulation and control. Since the implementation of the "dual-track system" of grain prices in 1985, market-regulated grain has exceeded a half of the total amount of grain procurement, but market control measures have failed to catch up. As a result, when there is a poor harvest, supply will be outstripped by demand, the market will be tight, and many channels will force up prices to compete with other buyers. Whenever this happens, the state and local governments would issue documents and circulars to stipulate that no unit, except for designated commercial departments, is allowed to deal with grain transactions. They would set up barricades of all kinds, impose restrictions, and engage in the practice of regional barricade. When there is a bumper harvest, the market will be loosened, and business will be slow for all units except for major state-run channels. Besides, due to a lack of grain storage facilities and funds, state grain departments have failed to play a role in supplementing the lean years with the surplus years and in suppressing prices. In addition, although allowing "some part of the grain market to die and another to survive" has a positive side, it has also provided convenience for those

who engage in arbitrage and speculations to reap colossal profits and create confusions in the grain market.

D. The policy of "three linkages" cannot be implemented successfully. Proceeding from the purposes of stabilizing grain production and protecting farmers' interest, in early 1987 the state adopted the policy of "three linkages" in contract grain procurement. This excellent policy was well received by farmers. But during concrete enforcement, not only is the amount of distributed state-price materials limited but the procedures of obtaining them are complicated. The materials are either intercepted and misused by grassroots units or delivered to farmers too late, in the wrong amount, or missing the farming season. This has lowered to a certain extent farmers' confidence in the policy.

Analyzing from the angle of grain farmers, they are most concerned about the issues of grain marketing and grain prices. Grain farmers asked the state to raise prices, stabilize the market, reduce their burdens, and increase their income, which is reasonable. So, during the improvement and rectification period and for sometime to come, the reform of the grain circulation system should still be focused on the areas of pricing, reducing the burdens of the state and farmers, and protecting farmers' enthusiasm for growing commodity grain.

III. The Trend of Thoughts on the Future Reform of Grain Circulation System

Opinions vary on the next step of reform of the grain circulation system. Some maintain that grain prices should be completely decontrolled and subjected to market regulation. Some maintain that we should implement as soon as possible the "single-track" system and strengthen the function of administrative interference. Some maintain that we should continue to implement and improve the "dual-track" system. I think that grain is an important and special commodity that concerns the national economy and the people's livelihood. The reform of its procurement and marketing policy concerns not only the development of the rural economy and the immediate interests of 1 billion farmers but also the interests of dealers and consumers and the stability of people's feelings and society. It is an extremely sensitive and complex, major issue. Because of this, to study and explore the issue of the reform of grain circulation system, we must adopt an extremely cautious attitude and safe steps. In the overall, general trend of thoughts we must ensure the following aspects:

A. We should correctly analyze and estimate China's grain situation. Since the state promptly readjusted pertinent policies in several consecutive years, in 1989 grain production took a turn for the better and total output reached 407.45 billion kg, resuming the 1984 level for the first time in five years. In 1990, the total output of summer grain reached 99.35 million tons, an increase of six percent over 1989 and another all time high. But the stagnant situation is not over yet. It is

estimated that China's current comprehensive agricultural production capacity is about 400 billion kg and some 80 million dan of cotton. To make new breakthroughs, we need to increase input accordingly and make strenuous efforts. Currently, for an increase of 100 billion kg in the production capacity of grain, we need to put in approximately 30 million tons of chemical fertilizer, 100 million horsepower of farm machinery, 20 billion kwh of electricity for farm use, and 2.6 million tons of diesel. Without such a material basis, it is impossible to reach a new level in grain production. On the one hand, China's population increases at the rate of 13 to 15 per thousand while cultivated land decreases at the rate of 3 per thousand, thus substantially suppressing the development of grain production. On the other hand, along with the change of people's diet, it is only natural that the people place more emphasis on the quality and nutrition of their diet. When considering a large country of 1.1 billion people, this undoubtedly is an acute contradiction—a contradiction between cultivated land and grain and population. The condition of relative shortage of supply that restricts China's grain production will exist for a long time to come. A slight mistake might cause a shortage crisis. This therefore decides that China's grain cannot become a free-market commodity and that its production and sales cannot be completely regulated by the market. However, it also decides that the state's administrative intervention is indispensable.

B. While implementing the "dual-track" system, we should insist on multiple channels and fewer links in management in regard to decontrolled grain, vigorously cultivate rural markets, and support farmers in directly engaging in circulation. However, the state's macroeconomic control and regulatory measures should suit the dual mechanism of planning and market system.

C. Grain is an important commodity for stabilizing the market, prices, and the situation as a whole. In the readjustment of its procurement and marketing policy, we should try our best to act according to the law of value and consider the interests of producers, consumers, dealers, and the state. We should roughly ensure that producers have definite income, consumers can stand it, dealers have some profits, and the state finance can afford it.

Based on the above principles, the direction of the reform of grain circulation system in 1990 should be: vigorously mobilizing the whole nation to develop grain production to alleviate the supply and demand contradiction; planning the use of grain, conserving grain, using grain in a scientific manner, and rationally distributing grain; and adopting effective measures in regard to circulation. We cannot take the road of retrogression and implement the unified state procurement and marketing system just because of the restriction of grain shortage; nor can we let everything go and rely completely on market regulation. We can only control some varieties and decontrol others and combine the two methods to ensure that the two methods complement each other, that grain production and marketing is lively and

orderly, stable and full of vitality, and that supply is guaranteed and society is stabilized.

Currently, as far as the methods, measures, and steps of concrete operations are concerned, we should start with reducing sales and stabilizing procurement, and straighten out the procurement and sales pricing system while consolidating and improving various external supplementary policies.

1. We should smooth out the price parities between farm products and implement the grain price policy that protects grain farmers' interests. While price scissors still exist and grain price cannot be readjusted substantially, we may first use grain as a base to gradually smooth out price parities among farm products and establish a guaranteed price system. 1) Guaranteed grain prices should be set and remain unchanged for several years. 2) The guaranteed price should be readjusted upward once a year along with the increase of price indexes of the means of agricultural production. The price parity between grain and fertilizer should be changed gradually from current 1:1.7 to 1983's 1:1.5. 3) The guaranteed grain price should be used as a base to set the price parities between grain and cotton, oil crops, and sugar crops. We should maintain a comprehensive balance, prevent the occurrence of price increases, and gradually readjust the price parity between cotton and wheat to 1:8, the price parity between cotton and rice to 1:12, and the price parity between hog and grain to 1:5.5. We should recognize regional price differences and give localities some authority to facilitate regionalized and specialized production. 4) Price readjustment should be done on a smaller, regional scale within the area of production instead of on a general, national scale.

2. We should reduce sales of grain at state prices. We should adopt the method that combines the unified policy of the central government and diversified policies of local governments and use the time of a five-year plan period to gradually reduce grain supply at state prices except for the food grain of urban residents, military provisions, the food grain of vegetable farmers in the suburbs of large cities, and relief grain. We should allow more supply of grain at negotiated prices under market regulation (including mainly grain used by town food industries, nonstaple food and brewing industries, non-agricultural feed, grain sold as incentives in rural areas, and feed grain). At the same time we may adopt the method that combines mobilization and voluntary participation to reduce the standard of ration of nonagricultural population. Judged by the current grain consumption level of urban residents, an appropriate readjustment of food grain standard will not affect living standards. If we reduce the per capita monthly ration by one kg, we can reduce the supply by about 3 billion kg a year. This can lighten the state's burdens, increase the people's awareness of grain conservation, and strengthen the unity between urban and rural areas. After the supply of state-price is reduced, the amount of grain to be supplied by the state at negotiated prices should be included in the market sales plan to ensure the stability

of the grain market. The amount of subsidies saved by the reduction of state-price sales may be used to raise the procurement prices of contract grain by two jiao per kg so as to compensate grain farmers for their losses resulting from scissor differentials.

3. We should stabilize the quantity of grain procurement to guarantee the supply of urban residents.

4. We should properly readjust the prices of grain supply to nonagricultural population. The current sales prices of grain are too low in urban areas. This has many drawbacks and urgently needs to be changed. In the 1950's workers' average monthly income was about 52 yuan, and the cost of their grain consumption was 4.5 yuan, accounting for 8.65 percent of their wage income. Currently their average monthly income has reached 163 yuan, and the proportion of grain expenses has dropped to 2.7 percent. Because of this, when we raise the procurement prices of grain in the future, we should raise the sales prices of grain accordingly and establish a link between procurement and sales. In this way, the state does not have to increase subsidies. And it can find the sources of funds needed for raising the procurement prices of contract grain.

5. We should implement the compensation policy in grain exporting areas. The base of grain transfer contract should be fixed. We should clearly stipulate that grain importing areas should be held responsible for the cost of storage (loan interest and the cost of wear and tear) and transportation if they fail to import the amount of grain within the contract base according to the set schedule. Grain importing areas are also responsible to cover the difference of negotiated prices after negotiating with grain exporting areas on the compensation of resources according to state regulations if they import more grain than their contract base. We should also link the size of contributions of grain exporting provinces, municipalities, and counties to the amount of investment—namely determining the ratio of the distribution of state agricultural means of production and construction funds. This is to encourage grain exporting areas to export more commodity grain and grain importing areas to gradually raise their grain self-sufficiency level.

6. We should continue to improve the monopoly method of agricultural means of production, reduce middle links, and stabilize the prices of chemical fertilizer, plastic films, and pesticide.

7. We should develop the production of commodity grain in a planned manner. We should exercise planned management over the basic amount of grain needed by the state, implement through various forms such plans down to production units, and strive to achieve a basic balance in the income and expenditure of state-price grain.

8. We should unclog circulation channels. State-run commercial departments should play a conscientious role of main channel and reservoir and submit to the stability of the situation as a whole. They should not

“make great efforts for great profits, little efforts for little profits, and no efforts for no profits.” When there is a surplus of grain, they should make sure that grain is procured promptly. When there is a shortage, they should release grain in a timely manner. Through “swallowing and spitting” they should be able to stabilize production and market. At the same time, the state should establish and improve the grain reserve system. Under the current household contract system, the state should take up the task of storing commodity grain. Replacing state storage with civilian storage may ease pressures on the state, but it has many drawbacks. The grain wastage of farmers' storage is high. During lean years, farmers would return grain money and save commodity grain for their own use. As a result, the state will not be able to transfer grain. This will also cause farmers to have the illusion that there is a surplus of grain which is detrimental to grain production. Because of this, accelerating the construction of circulation facilities is an important link in the reform. Otherwise, the phenomenon that “when farmers want to sell grain, the state throws away grain, and when farmers do not have enough grain, the state wants to buy grain” will occur again and the current passive situation in which the state cannot “afford to procure, store, and transfer” will never be improved once and for all. So we should make up our minds to do a good job in the construction of circulation facilities and ensure that they can really play the role of the main channel of state-run commerce.

9. Grain production and management are low-profit undertakings. Grain exporting areas need to subsidize part of this operation. So financial and monetary departments should guarantee the supply of funds and provide low-interest loans to be used as the working funds of grain operations. Grain management departments should improve management and reduce costs.

10. The state may appropriately import a little more grain in the near future to alleviate the supply and demand contradiction of the grain market.

Tests on Transfer of Exotic DNA Into Wheat

91CE0267A Kunming YUNNAN NONGYE KEJI
[YUNNAN AGRICULTURAL SCIENCE AND
TECHNOLOGY] in Chinese No 6, 25 Nov 90 pp 20-21

[Article by Biochemistry Team, Measurement and Test Center, Yunnan Provincial Academy of Agricultural Science]

[Abstract] Transfer of exotic DNA is a seed-selection technique that was developed in the mid-eighties; this is a new molecular seed technique, between genetic plant engineering and conventional seed selection.

Materials for experimentation: the producers were anti-rust wheat “84-346” and “84-463” as well as barley and oat; the hosts were Dimai wheat “84D2-252”, “83D5-18,” “Yunmai wheat 29,” “74-10-1,” and “83D2-22,” and Fulimai wheat, 12 species altogether. Forty-one combinations were prepared for producers and hosts.

Through the embryonal injection method and pollen tube passage method, DNA from the producers were transferred into the host wheat. Among descendants mostly without mutation, there were the following mutation types in several combinations: in terms of mutations in the ripening period, in terms of spike shape and number of seeds in a single spike, in terms of stalk type, and in terms of isodynamic enzyme spectrum, as well as enhancement of disease resistance.

As indicated by the above-mentioned results, the introduction of exotic DNA after self-pollination of wheat may cause mutation of hosts. Generally, mutations involve mainly in a single property. This indicates the feasibility of accomplishing single property transfer in wheat seed selection by using the technique of exotic DNA transfer.

Statistical Bureau Says City Food Supply Abundant

*OW1803085591 Beijing XINHUA in English
0828 GMT 18 Mar 91*

[Text] Beijing, March 18 (XINHUA)—Vegetable, pork, egg and milk supplies were abundant and the prices remained stable in China's cities, according to the State Statistics Bureau's latest figures for 1990.

Preliminary statistics from 36 large and medium-sized cities reveal that the average supply of vegetables was 12.7 million tons in 1990, an increase of 2.2 percent over the previous year, while the retail price of hundred kg of vegetables was 78 yuan, only a little higher than in 1989.

The average supply of pork in these 36 cities in 1990 was 1.24 million tons, 8.7 percent more than the year before. Due to the abundant supply of pork, the retail price continued to fall in 1990.

Statistics from the 36 cities showed that the supply of eggs reached 774,000 tons, and that of milk 735,000 tons, in 1990, registering respective increases of 13.1 and 12.8 percent.

An official of the bureau said that with the deepening of the nation-wide reform of vegetable production and supply systems, the structure of urban residents' food consumption has begun to change.

The statistics indicated that in the nonstaple foods sales volume of pork, eggs, milk, and vegetables, the proportion of pork, eggs and milk rose from 16.6 percent in 1989 to 17.7 percent in 1990. Moreover, the proportion of eggs and milk also increased.

The official said that the vegetable planting areas in the 36 cities exceeded 920,000 ha, an increase of 4,600 ha over the previous year. Meanwhile, the cities further enhanced their large-scale nonstaple foods bases and enriched their markets.

1990 Farmer Income

*91P30107A Beijing JINGJI RIBAO in Chinese
1 Mar 91 p 3*

[Summary] According to a survey of 67,000 rural households, per capita net farmer income in 1990 was 630 yuan, a 4.7 percent increase over 1989. Deducting price increases, the increase was 1.8 percent.

Northeast Provinces To Raise Corn Output

*OW1503063791 Beijing XINHUA in English
0310 GMT 15 Mar 91*

[Text] Harbin, March 15 (XINHUA)—The three provinces and one autonomous region in northeast China have agreed to pool their efforts to raise corn output during the Eighth Five-Year Plan period (1991-1995).

Known as China's major corn production base, the provinces of Liaoning, Jilin and Heilongjiang and the Inner Mongolia Autonomous Region have fine conditions for corn production.

With joint efforts, Liaoning, Jilin and Inner Mongolia will raise their per ha corn output from the present six tons to 7.5 tons, and Heilongjiang will raise the per ha output from 7.5 tons to 9.7 tons.

In all, northeast China will produce an additional corn output of 15 billion kg in the five years on three million hectares of land, or 50 percent of its total corn cultivation area.

Meanwhile, some measures have been worked out to implement their joint plan.

The plan has received support from the Ministry of Agriculture and departments concerned.

Anhui Increases Hog Production

*91P30107D Hefei ANHUI RIBAO in Chinese
11 Feb 91 p 1*

[Summary] In 1990 Anhui Province removed 10,327,000 porkers from stock, a 5.9 percent increase over 1989; at the end of 1990, 12,841,000 hogs were in stock, a 2.9 percent increase; and pork output was 848,000 tons, a 6.3 percent increase.

Guangxi Reduces Grain Sales

*91CE0257A Beijing JINGJI CANKAO in Chinese
11 Dec 90 p 1*

[Article by JINGJI CANKAO correspondent Liu Xingze (0491 2502 3419): "Since 1988 Guangxi Has Reduced the Grain It Supplies by 150-200 Million Kilograms, Saving the Province 100-200 Million Yuan"]

[Text] In the past few years Guangxi Zhuang Autonomous Region has actively and responsibly implemented reforms to reduce urban and rural grain sales, with notable results. According to statistics, since 1988 the

amount of grain it has supplied has been reduced 150-200 million kg per year, saving the province 100-200 million yuan.

Guangxi is a grain-poor region: Every year the state has to import 1-2 billion kg of grain from outside Guangxi, and in the highest single year it brought in nearly 2.5 billion kg. Guangxi must also pay out grain subsidies of several hundred million to 1 billion-plus yuan per year, and has become a major financial burden to the nation. To alleviate grain supply problems and financial burdens, in the past two years the autonomous region has adopted various measures to reduce grain sales:

—It has reduced sales of fodder grain. Beginning in 1986 the deregulation of hog prices induced the grain department to deregulate intermediate-grade grain earmarked for conversion to fodder. Beginning on 1 July 1988 the autonomous region decided to institute negotiated pricing on fodder grain for the livestock industry region-wide. Based on Guangxi stipulated standards, fodder supplied to state-run seed multiplication farms was limited to the 1983 actual sales level. Right now the grain department supplies grain at state prices to seed multiplication farms, animal husbandry projects under the auspices of scientific research departments, and dairy farms in the five municipalities administered directly by the central government, including Nanning, Liuzhou, and Guilin. The livestock industry in all other locations is supplied grain at a negotiated price. By this means alone Guangxi has been able to reduce fodder grain sales at state prices by 30-40 million kg per year in recent years.

—It has cut back on commercial grain use. Commercial grain use includes the food, non-staple food, bakery, and brewery industries. In January 1985 the autonomous region stipulated that the grain-supply standard for these industries should be limited to 1983 levels and continue to be supplied via state-monopoly marketing. Beginning in 1986 all grain sold to these industries was to be priced through negotiation in all counties and cities in the autonomous region except the five municipalities administered directly by the central government—Nanning, Liuzhou and so forth. Starting on 1 October 1988 all commercial grain use throughout the autonomous region was switched to negotiated pricing. This step has allowed Guangxi to reduce grain sales at state prices by about 100 million kg.

—It has reduced grain subsidies above the grain ration. Guangxi stipulated in 1986 that except in the five municipalities administered directly by the central government—Nanning, Liuzhou, Guilin, and so forth—grain subsidies would continue for the following people: cadres working regular production shifts; night workers; college, university, and secondary students and normal school trainees; and students released from regular work to take television and radio courses. However, all other grain subsidies that county and municipal governments have not mandated could be eliminated. Those which were not

eliminated could be switched from state monopoly pricing to pro rata pricing. On 1 October 1988, the autonomous region further announced that all kinds of grain subsidies except those for college, university, secondary, and normal school students and trainees would be eliminated.

—It has reduced grain rations for city and town-dwellers. In July 1988 Guangxi began to restrict the amount of grain that could be purchased with ration coupons in any given month, and it strictly limited the use of general nationwide or region-wide grain coupons for buying grain. The basic grain ration is guaranteed, but if people have previously saved grain, additional grain will not necessarily be supplied. This will prevent the large quantity of grain coupons at large in society from overwhelming state grain reserves all at once, and so help ensure the supply of urban grain rations.

—It has economized on grain use. The autonomous region ruled beginning in 1989 that national-level cadres, workers, and staff who receive a grain ration of over 14.5 kg must save 1 kg per person per month from that ration to set aside for aid to hard-hit natural disaster areas.

—It has reduced the use of grain by cash-cropping teams and for supporting rural welfare. The autonomous region stipulated that beginning in October 1988 state monopoly sales to cash-cropping teams would be eliminated, and supplies of grain rations to fishermen, which were previously sold at pro rata prices, would thereafter be sold at negotiated prices. As for truck farmers in the five municipalities administered directly by the central government—Nanning, Liuzhou and so forth—grain should be supplied at pro rata prices rather than negotiated prices. As for rural welfare efforts, first of all grain should be supplied at pro rata prices for childless and infirm elderly people; very poor households and families of military and revolutionary martyrs; and reservoir and border areas which lack both grain and financial resources. Second, where grain is in short supply but a certain amount of fiscal resources are available, grain should be supplied at a composite price: generally the proportions of grain at state prices and at negotiated prices should each be 50 percent. Where grain is scarce but there is no lack of money, grain should be supplied at negotiated prices.

Hainan Farm Output Tops 2.99 Billion Yuan

OW1603044891 Beijing XINHUA Domestic Service
in Chinese 1001 GMT 15 Mar 91

[By reporter Chen Jiang (7115 3068)]

[Text] Haikou, 15 Mar (XINHUA)— According to statistics, Hainan's total agricultural output value rose by 9.55 percent over 1989 to reach 2.99 billion yuan last year. Total grain output topped 1.65 billion kg, an

all-time high. The output of sugar, animal, and aquatic products continued to grow. New progress was made in growing rubber-dominated tropical cash crops. Total output of dry rubber reached 155,000 tons, up 96 million tons [as received] from the previous year.

Among China's five existing special economic zones of Shenzhen, Zhuhai, Shantou, Xiamen, and Hainan, the land area in Hainan is the largest. Over 80 percent of Hainan's population lives in the countryside. Agriculture accounts for over half of Hainan's total industrial and agricultural output value. Export commodities processed from agricultural and sideline products represent 70 percent of total export volume. Hence, agriculture is a major development and construction project in the special economic zone.

Hainan has broad prospects for developing agriculture. However, frequent droughts and typhoons that occur six to seven times each year are the main hindrances to agricultural development. Hainan still has not achieved self-sufficiency in grain. Therefore, actively developing grain production has become an important task for the Hainan Provincial Government in agricultural development. Last year, total grain output of [words indistinct] in Hainan surpassed 490,000 tons. Each person in the rural areas of these towns and townships produced an average 547 kg of grain, which was much more than the 184 kg produced by each person in rural areas throughout the province. The Hainan Provincial Government has drawn up plans and adopted measures to achieve basic self-sufficiency in grain in the next three to five years.

Heilongjiang Increases Grain Purchases

SK1503062391 Harbin Heilongjiang Provincial Service
in Mandarin 1000 GMT 14 Mar 91

[Summary] By the end of February, the province had purchased 10 billion kg of grain, an increase of 30 percent over the corresponding period last year, of which 4.8 billion kg were purchased at the negotiated price.

Hunan Promotes New Agriculture Techniques, Projects

91CE0321B Changsha HUNAN RIBAO in Chinese
25 Jan 91 p 1

[Article by Yan Zhiguo (3601 1807 0948): "Provincial Agriculture Department Pushes Development of Projects and Practical New Techniques"]

[Excerpt] [passage omitted] Recently the provincial Department of Agriculture promoted six development projects and the general spread of eight new practical techniques.

The six development projects are as follows: A project for the development of ton of grain fields, which calls for a more than 7 million mu area throughout the province to produce more than 1 ton of grain per mu, between

three and five counties that becoming more than 1 ton of grain per mu counties, and a number of villages becoming more than one ton of grain per mu villages. While devoting attention to the development of ton of grain fields, firm attention is also to be given to the transformation of 3 million mu of low yield fields to spur high grain yields. This is to help maintain the amount of grain throughout the province at the constant figure of 450 kilograms per capita. Winter agricultural development projects include a readjustment of crop patterns in northern and western Hunan and sensible crop rotation accompanied by a main attack on improving winter crop yields, and a change to increase the growing of such crops for an overall improvement in returns. Some parts of southern and central Hunan must put efforts into improving the winter farming cover rate, the insured harvest rate, and per unit yields. Poverty stricken areas are to develop "sufficient food and clothing projects," the whole province to meet a quota of 800,000 mu of plastic mulch-grown corn in 1991. Large and medium-size water surface development projects are to include promotion of the rearing of fish in enclosures, the rearing of fish in net cages, and artificial stocking to accelerate the development of large water surfaces. The provincial government is planning the development of a group of medium and small lakes covering 300,000 mu in the Dongting Hu region. In the development of a grain-conserving livestock industry project, the emphasis is to be on mountain region herbivorous livestock bases, lake region water fowl production bases, and suburban "grocery basket projects," developing households specializing in livestock, poultry, and aquatic products breeding, and premium quality fruit and mulberry development projects. The provincial government is to emphasize 10,000 mu each of premium quality fruit and silkworm mulberry bases.

The eight techniques to be spread are as follows: Increase in the superior varieties cover rate. More than 42 million mu of hybrid rice is to be grown in the province, more than 10 million mu of it early hybrid rice, simultaneous attention being given the regeneration of conventional rice varieties, dryland grain crops, and cash crops; development of binary and ternary hybrid hogs and hybrid carp, and tilapia; the extension of early rice fenxiang [0433 1666] sowing, longxiang [1096 1666 ridge] cultivation, close dibbling of wheat, barley, and oats, regularized cultivation of cotton, tobacco, and sugarcane, and such advanced farming techniques; effective applications of qianglujing [1730 3048 4737], duoxiaozuo [1122 2400 8143], gibberellin, zengchanjun [bacteria 1073 3934 5497], rare earths, and such biochemical regulation and control techniques; vigorous development of multiple cropping systems including wheat and two crops of paddy; rape and two crops of paddy; corn (interplanted with pulses) and paddy; intermediate rice and a second crop of rice; rice, rice, and mushrooms; rice, duckweed, fish, and companion cropping or intercropping of grain with cash crops, grain with vegetables, or grain with

livestock fodder; promotion of blended (or mixed) livestock feeds for hogs, intensive rearing of aquatic products, and such high yield techniques; better forecasting of crop diseases and insect pests; popularization of farm crop disease and insect pest comprehensive prevention and control measures, and techniques for the prevention and control of diseases in livestock, poultry and fish; improvement in fertilizer application techniques, and better soil fertility monitoring work; active promotion of paddy field tilling machines, paddy head breaking and bud forcing machines, deep fertilization devices, threshing machines, and tea-picking machines; consolidation and improvement of "two savings heaters"; and further development of methane gas, small hydropower generation, and energy-saving flue-cured tobacco sheds.

Jiangsu Reports Growth in Aquatic Production

*OW1203042291 Beijing XINHUA in English
0323 GMT 12 Mar 91*

[Text] Nanjing, March 12 (XINHUA)—An official from the Jiangsu Provincial Aquatic Bureau reported recently that the output of aquatic products in this east China province reached an all-time high last year.

Provincial statistics show that the output of aquatic products rose to over 1.18 million tons last year, a seven percent increase over 1989.

The official said that this was the twelfth year running in which the province, one of the largest aquatic producers in China, recorded a bumper harvest.

Production figures for 1990 include a 51,000 ton increase in the catch of freshwater fish and a 26,000 ton increase in that of saltwater fish.

More World Bank Funds To Develop Jiangxi Red Soil

*OW1703030391 Beijing XINHUA in English
0131 GMT 17 Mar 91*

[Text] Nanchang, March 17 (XINHUA)—The World Bank has decided to increase its investment in the development of Jiangxi Province's red soil areas to the tune of 600 million yuan (more than 100 million U.S. dollars).

After five years of experiment, Jiangxi, in south China, has proved it can successfully carry out agricultural development on its wide regions of barren red soil.

In the fall of 1986, with a loan of 30 million U.S. dollars from the World Bank, Jiangxi opened up 20,000 ha of red soil in central Jiangxi and settled almost 10,000 of immigrant farmers there.

The major form for the development of red soil in Jiangxi is the family farm. Farmers enjoy preferential policies from the local government in terms of funds, materials, technology and other aspects. It is learned

that, in addition to the money from the World Bank, the local government has put in nearly 100 million yuan to help in the past five years.

By the end of last year some 9,878 family farms had been set up in the experimental area, involving more than 32,000 people. In 1990 these farms earned a total income of as high as 22.78 million yuan, an average of 706 yuan per capita, higher than the national average income in rural areas.

Irrigation systems, highways, schools, hospitals and other capital construction have also appeared in the experimental area.

Having made inspections in Jiangxi, representatives from the World Bank highly praised the province's achievements, and submitted a report to the World Bank recommending similar co-operation with Fujian, Zhejiang and Hunan Provinces, and the Guangxi Autonomous Region.

Jilin Ranks First in Per Capita Share of Grain

*SK1503061691 Changchun Jilin Provincial Service
in Mandarin 1030 GMT 14 Mar 91*

[Text] During the Seventh Five-Year Plan period, our province ranked first in the whole country in the average per capita share of grain, the grain commodity rate, the corn export volume, and the delivery of grain to other localities.

From 1986 to 1990, the grain output of the whole province totaled 81.65 billion kg. The annual average per capita share of grain for the people was 689 kg. In 1990, the province's total grain output reached more than 18.7 billion kg and the average per capita share was 830 kg, surpassing the national average per capita share of grain by more than 100 percent. During the past five years, the province's commodity grain output totalled 46.65 billion kg, accounting for 57 percent of the total grain output. The average annual amount of contracted grain handed over to the state by each peasant household was 1,265 kg. The state grain departments purchased 11.9 billion kg of grain in 1990, accounting for 58.1 percent of the total grain output.

During the past five years, the whole province exported 11.22 billion kg of corn, representing an annual average export of 2.24 billion kg. In addition, the province also exported some soybean, dregs of beans and other food grains other than wheat and rice.

During the Seventh Five-Year Plan period, the whole province accumulatively delivered 5.76 billion kg of parity-price grain to other provinces, representing an annual average delivery of 1.15 billion kg.

Liaoning Wheat Production Planned

SK1503071891 Shenyang Liaoning Provincial Service
in Mandarin 1030 GMT 14 Mar 91

[Summary] The province plans to increase the areas sown to wheat to 4 million mu and wheat output to 1 billion kg by the end of the Eighth Five-Year Plan period. Its areas sown to wheat grew from 170,000 mu in 1985 to 1.83 million mu in 1990, and wheat output rose to 500 million kg. So far, preparations for sowing 2.5 million mu of wheat this year are completed.

Sichuan Rape Area, Price

91P30107C Chengdu SICHUAN RIBAO in Chinese
3 Feb 91 p 2

[Summary] At present, the rape area in Sichuan Province exceeds 13 million mu; in 1991, the overall procurement price of rapeseeds will be 1.56 yuan per kilogram.

Xinjiang 1991 Crop Area Planned

91P30107F Beijing JINGJI CANKAO BAO in Chinese
15 Feb 91 p 1

[Summary] In 1991 the planned grain area in Xinjiang is 27 million mu, gross output 6,750,000 tons; cotton area 6,750,000 mu, gross output 425,000 tons; oil crop area 4 million mu, gross output 360,000 tons; beet area 1,100,000 mu, gross output 2,200,000 tons; and meat output 290,000 tons.

Zhejiang Farmer 1990 Income

91P30107E Beijing NONGMIN RIBAO in Chinese
18 Feb 91 p 1

[Summary] According to a survey of 2,700 rural households in 27 counties (cities, prefectures) in Zhejiang Province, the per capita net income of farmers in 1990 was 1,099.04 yuan, a 3.4 percent increase over 1989, or 2.7 percent after deducting price increases.

PLA Academy 'Demands' Facts on 4 June Incident

91CM0308A Hong Kong CHENG MING
[CONTENDING] in Chinese No 1, 1 Jan 91 pp 14-15

[Article by special correspondent Yue Shan (1471 1472), dated December 1990: "Military School Demands Publication of Truth About 4 June"]

[Text] About 100 kilometers north of Beijing is a place noted for the manufacture of locomotives called Changxindian, where a Chinese PLA [People's Liberation Army] Armored Force Engineering Academy is located. On 24 November 1990, a letter in the name of all the academy's instructors and students was sent from the Armored Force Engineering Academy to the Military Commission of the CPC Central Committee. This was no ordinary letter.

Demand for Publication of the Actual Casualty Figures for 4 June

This letter demanded, first of all, that the Chinese Communist authorities make public the truth about the 4 June incident of 1989, publish actual military and civilian casualty figures, and the real figures on damaged and destroyed military and civilian vehicles, and also make public the truth about the student "riots" (the letter used the word "riots") of the spring and summer of 1989 involving 2.7 million people including party members, government workers, workers, intellectuals, and city residents. This letter also demanded the publication within proper limits of the reasons for moving eight divisions from five military regions into the capital city and going on full readiness.

The letter said: "The country is now basically stable, and the leadership level was reorganized more than a year ago. General Secretary Jiang Zemin, President Yang Shangkun, and Premier Li Peng have said that they will publish the truth about the spring and summer 'riots' of 1989. However, 1991 is about to arrive and the Seventh Plenary Session is about to convene, yet no publication has appeared. This is hard to understand." The letter continued: "Only by following the spirit of seeking truth from facts, publishing the true facts, and providing an objective explanation can party, government, military, and civilian doubts be eliminated. This will benefit the unity of the entire armed forces and the people throughout the country, and stir greater zeal for going ahead with the current deepening of reform and opening to the outside world."

Demand for Earliest Disposition of Persons Arrested

This letter also said: "The CPC must be open and aboveboard. It must reach a political and organizational verdict on former General Secretary Zhao Ziyang, and Politburo Standing Committee member Hu Qili. Now should be the time to make earliest disposition of those arrested and those indicted for their participation in the 1989 riots using truth as the foundation, the law as the

criterion, and leniency as the standard. This will help relations between and the unity of the party and the people, and will help future building of the motherland."

Vigilance Lest Gun-Carrying Careerists Usurp Authority

This letter also pointed out that the degeneration and decay, the corruption and the graft that have appeared among leaders at various levels of the party, government, and armed forces continue to worsen. Unless resolute action is taken to attack and purge them, the ire of the populace will not be allayed, nor will it be possible to stir the people's zeal.

Finally, this letter reminded the Chinese Communist authorities: "A situation has begun to swell in which the gun commands the party, the gun rules the government, and the gun usurps authority. It is necessary to expose and guard against gun-carrying careerists and plotters from usurping the leadership of the party and state, or staging a palace coup behind Deng Xiaoping's back when the time is ripe."

Military Commission Stations Work Team in Academy To Conduct Repression

Needless to say, such a letter was bound to arouse the ire of hard-shelled conservatives.

On 2 December, the Military Commission sent a work team headed by the deputy director of the General Political Department to garrison the Armored Force Engineering Academy. At a meeting that same evening it announced that "once an unusual political incident occurs in a vain attempt to destroy the present stability and to disturb military and civilian morale, the spearhead is directed toward the central leadership."

On the evening of 4 December, the work team further announced that the 12 instructors and students that drafted the letter were to be suspended from their jobs and studies pending investigation, and that instructors and students throughout the academy would be required to inform against them.

On 5 December, it further announced the restructuring of the Armored Force Engineering Academy CPC Committee.

On 6 and 7 December, slogans began to appear in the academy's CPC Committee office building, reading "Truth Is Bound To Triumph; Despotism Is Bound To Fail"; "Protect the CPC Central Committee; Expose the Careerists"; and "The Work Team's Standpoint Is Wrong."

In view of these circumstances, the Military Commission feared that matters might get out of hand, so in order to prevent the situation from developing further, the first vice chairman of the Military Commission, Yang Shangkun, personally instructed the work team to change its original strategy to emphasize propaganda and education of the instructors and students. It should not

enlarge the effect and thereby damage current stability and unity. As regards the student demands, it should be explained that some information had already been published, some could not be published for the time being, and some would be published within certain limits and at the proper time. Those instructors and students who would not come around could keep their views. The time for them to retire or complete their studies could be advanced. These arrangements could be left for later.

One can see from this letter that not only has the anger of the broad masses of military personnel and civilians about the 4 June slaughter not abated, but that the Chinese Communist leadership becomes panic-stricken at any sign of trouble and acts as though facing a major enemy.

The New Thinking Is a Time Bomb in the Armed Forces

The supreme Chinese Communist decisionmakers may soon realize that the new thinking among military academy instructors and students is a time bomb in the Chinese Communist armed forces. Deng Xiaoping has repeatedly told Military Commission work teams that the most crucial link in the modernization and revolutionization of the armed forces is to revolutionize the graduates of military schools. They learn about modern warfare; they master the use of modern weapons; and they understand the building of military units. The problem is to get them to put this modern information and technology to work under the leadership and direction of the party.

Half a Year to a Year and a Half of Ferreting Out

In his capacity as first vice chairman of the Military Commission, from 4 to 6 October Yang Shangkun convened a joint meeting of the Military Commission and the heads of seven military schools under direct jurisdiction of the Central Military Commission and the three armed forces for the purpose of transmitting the "instructions" of Deng Xiaoping. Taking the casual remarks of his superior as an order, at the meeting Yang Shangkun preached making military schools into "institutions loyal to the party and major schools for defending the four basic principles," and "the necessity for training military and government cadres who are both Red and expert." Yang said that, beginning in the autumn of 1991, military school students would be selected from among the ranks of outstanding young workers, peasants, and soldiers. Not a single person who did not meet ideological and political standards would remain in the school. There was to be no ambiguity and no vacillation.

Still speaking on behalf of the Military Commission, Yang Shangkun also announced at the meeting that there was to be a bolstering of leadership teams in military schools under the direct jurisdiction of the Military Commission and the three services. The formation of

party and government leadership teams was to be completed in the spring of 1991. Then the Military Commission would dispatch work teams to help with the restructuring of school leadership teams, and to ferret out personnel and situations affected by or involved in the "counterrevolutionary riots" of 1989. Once leading cadres were found, they were to be suspended from their positions first and then dealt with. All such students were, without exception, to be sent to their original units or areas for placement. Military schools under other than central government jurisdiction, and police and public security schools were to be restructured by work teams sent out by the CPC Committees of provincial and municipal military commands and garrison commands working in cooperation with the school work teams. The time set for doing this was a half year to a year and half.

Young Generation of Military Officers a Potential Threat to Yang Jiajiang

The reason for Yang Shangkun's impatience to make an example of the military school was not only because he felt that the younger generation of military officers graduated from military schools were extremely opposed to the dictatorial and high handed regime, but also because he believed them to be a potential threat to Yang Jiajiang's [2799 1367 1412] political career. In addition, Yang believed that he could take advantage of Jiang Zemin's not yet having a firm foothold in the armed forces to move ahead with consolidating Yang Jiajiang's power and position in the armed forces.

This is part of the background to the Armored Force Engineering Academy instructors and students writing of a letter to the Military Commission. The letter shows the instructors, students, personnel, and workers at the military school to be opposed to Yang Shangkun's purges at the military academy. This resistance activity can be suppressed, but its effect on all Chinese Communist military schools cannot be suppressed. This time bomb is bound to make a bigger explosion in the future.

Development of Navy's Amphibious Landing Craft

91CM0231A Hong Kong KUANG CHIAO CHING
[WIDE ANGLE] in Chinese No 219, 16 Dec 90
pp 68-73

[Article by Ling Yu (0407 1342): "The Amphibious Warships of the Chinese Communist Navy"]

[Text] During the latter period of the civil war between the Kuomintang [KMT] and the Communists, the Chinese Communists often used sailboats to transport army forces in landing operations, as in the crossing of the Chang Jiang and of the Leizhou Strait.

Amphibious Operational Forces Originated in the Latter Part of the Civil War Between the KMT and the Communists

When the KMT government retreated from the mainland to Taiwan, the Chinese Communists obtained large

numbers of U.S.-made landing craft both from KMT naval units that switched allegiance and as a result of the normal spoils of war. These craft included tank landing ships (LST), mechanized landing ships (LSM), large infantry landing ships (LSIL), utility landing craft (LCU), and mechanized landing craft (LCM).

The Battles of the Wanshan Islands and Yijiangshan Island

In the early 1950's, the Chinese Communist Navy used these U.S.-made landing craft to transport army forces to seize several coastal islands from KMT troops. Some of these battles were relatively well known. One was the battle on 25 May 1950, in which the River Defense Force of the Guangdong Military Region, after 71 days of furious combat, captured the Wanshan Islands, which had been under the control of the KMT Army. Another occurred on 18 January 1955 when the Navy of the East China Military Region dispatched a large number of warships, including more than 140 landing craft and transport craft, to assist the Army and Air Force in capturing Yijiangshan. The battle to land on Chinmen [Quemoy], however, ended in failure.

During this "island-to-island war," the Soviet Union supplied the Chinese Communists a number of old-style T-4 mechanized landing craft (LCM), which were used in some landing operations. After the battles for the coastal islands basically came to a conclusion, the Soviet Union supplied no more amphibious operations ships to the Chinese Communists.

From the 1950's until the mid-1960's, there was frequent conflict at sea between the KMT and Communist Navies, so the great majority of warships built by the Chinese Communists during that time period were front-line ships. Landing craft accounted for only a very small proportion, and no new types were developed.

Building Landing Craft in Shanghai in the 1960's

The first landing craft that the Chinese Communists developed themselves was very similar to the Soviet T-4, and was known as model 55. It was reported to have been built in the early 1960's in Shanghai. Only about 10 of them went into service.

The tonnage of the model 55 mechanized landing craft was very small. Its tank compartment could transport only 20 tons, which meant either 60 to 70 military personnel, one light tank (such as the 63), or one heavy truck. The ship's defensive armament consisted of two side-by-side twin-mount 14.5-mm heavy machine guns. The power plant of the model 55 landing craft consisted of two diesel engines (two shafts). Its maximum speed was 10 knots, and its cruising speed was eight knots. It could withstand winds up to force-4 or -5.

The Model 068 Yunnan-Class Utility Landing Craft

After the model 55, the Chinese Communists developed a model of utility landing craft (LCU) in the late 1960's

with a tonnage similar to that of the 55. They called it the model 068, which is known by Western military experts as the Yunnan class. The outward profile of the model 068 is larger than that of the 55, but its military load, at 20 tons, is the same. It carries the same number of personnel, tanks, or heavy trucks. Its defensive armament usually consists of two side-by-side twin-mount 14.5-mm heavy machine guns, and some ships have two 12.7-mm/54 antiaircraft machine guns. Its power plant consists of two diesel engines. The bow design of the model 068 has been somewhat improved, which has made this ship, at 11.5 knots, faster than the model 55.

Sending Forces To Land on Xisha Qundao

From the late 1960's to the early 1970's, the shipyards of the Chinese Communist Navy built a large number of model 068 landing craft. Western specialists estimate that around 320 were delivered to the Navy.

Models 55 and 068 have often served as transport ships for troops stationed on remote islands and sentry posts. The 068 landing craft transported troops to occupy Xisha Qundao [Paracel Islands] during the Xisha Naval Battle of 1974.

The Model 079 Yulin-Class Tank Landing Craft

In the mid-1970's, the Chinese Communists designed and built their first medium-sized amphibious operational ship and called it the model 079. After Western specialists learned of this ship's existence, they called it the Yulin class, and mistook it for a copy of a medium-sized U.S. mechanized landing ship (LSM). In reality, the model 079 is a tank landing craft (LCT) with an external profile and tonnage smaller than the LSM.

The standard displacement of the model 079 LCT is estimated to be 650 tons. It has a landing door in the bow. The tank compartment can carry 200 tons of material, including five tanks or eight heavy trucks. When used for troop transport it can carry 300-400 personnel.

The model 079 LCT uses a diesel engine, has a maximum speed of 12.5 knots, and an cruising speed of 10 knots. Its draft is 2.6 meters, and it can withstand winds up to force-5 or -6. Its armament includes four 25-mm/60 twin-mount guns, two of which are mounted on either beam amidships, while the other two are mounted behind the bridge. A navigation radar similar to the Soviet Union's Neptun is installed atop the mast.

Information available so far indicates that all the model 079 LCT's are in service with the South Sea Fleet.

The Model 072 Zhoushan-Class Tank Landing Ship

In the late 1970's, Shanghai's China Shipyards began to lay the keel for a new type of amphibious warship, the first of which was completed in 1980 and called the model 072, also known as the Zhoushan class. This is a tank landing ship (LST), and is the largest amphibious warship built to date by the Chinese Communists.

The model 072 Zhoushan-class LST has a standard displacement of about 1,400 tons and a full load displacement of 3,400 tons. Inside the ship, the tank compartment runs straight through from stern to bow, and there are doors on both stern and bow. This design is used by all modern foreign navies. The advantage is that it makes the ships more flexible and enables better use of space in the ship's tank compartment. When the ships must land through a narrow channel, they can line up stern-to-bow, thereby allowing personnel, tanks, and material to pass forward from one ship to another, as if through a corridor, to the landing point.

It is estimated that the model 072 LST can carry 10 tanks. There are two vehicle/personnel landing craft (LCVP) behind the bridge, one on either beam, which can be lowered by a boom into the water in order to transport personnel or vehicles to shore. The ship's armament includes four 57-mm/66 twin-mount guns and two 25-mm/60 twin-mount guns, of which two 57-mm guns are mounted on deck number 01 in front of the bridge, one is mounted in the bow, and one is mounted on deck number 01 behind the funnel. The two 25-mm guns are mounted amidships, one on either beam.

The Zhoushan landing ship has two diesel engines of French design. They have two shafts and a cruising speed of 13 knots. A navigation radar similar to the Soviet Union's Neptun is mounted on the ship.

During the Chinese Communist project to build an oceanography station on Yongshu Jiao [Fiery Cross Reef] in the Nansha Qundao [Spratly Islands], the model 072 LST was used to transport construction equipment and materials.

The Yuliang-Class Utility Landing Craft

The Yuliang-class utility landing craft (LCU) is an amphibious warship which Western specialists have observed only in recent years. In terms of external appearance, it resembles a scaled-down model 079 Yulin-class LCT. Western specialists still do not know what the Chinese Communists themselves call this ship.

It appears from the outside that the Yuliang can probably carry two tanks. Its antiaircraft armament includes four 14.5-mm twin-mount heavy machine guns installed in the same positions as the four machine guns on the model 079.

The New Qionsha-Class Personnel Attack Transport

In the late 1980's in the shipyards in Guangzhou, the Chinese Communists built a new type of personnel attack transport. This ship is fast and can carry more personnel. Western military specialists have named it the Qionsha class. Its appearance indicates that the Chinese Communists are attaching increased importance to landing operations, prompting Western nations to take a close look at the amphibious operational capability of the Chinese Communists.

The Qionsha-class personnel transport has a full-load displacement of 2,150 tons and a cruising speed of 16 knots. It can carry over 400 troops or 350 tons of cargo. There are light cargo booms forward and aft, but the ship does not have a helicopter pad, which severely restricts the ship's ability to transport personnel and materials or to carry out resupply. The ship can also carry six attack landing craft (LCA), which can speedily transport troops for a landing. Its armament includes four twin-mount 14.5-mm heavy machine guns.

According *Jane's Fighting Ships, 1989-90*, the Chinese Communists now have nine Qionsha-class personnel attack craft.

Trial Production of a Medium-Sized Landing Ship

In the late 1970's and early 1980's, the Chinese Communists carried out trial production of at least two types of medium-sized landing ships (LSM), but they did not go to batch production.

One of them was the Chongming-class landing ship, pennant number 937. It had a twin-funnel design and an estimated full-load displacement of 1,000 tons. It had an open landing door on the forward end, and could carry five tanks. It could also carry two attack landing craft. The ship's antiaircraft armament consisted of four twin-mount 37-mm machine guns.

The other ship was the Yudao-class landing ship, pennant number 938. This ship also had twin funnels and an estimated full-load displacement of 1,000 tons. The hull's dry well was relatively low, and there was an open landing door on the forward end. The ship could carry five tanks.

In addition to the landing ships which it designed on its own, the Chinese Communist Navy is also still using 13 World War II vintage U.S. tank landing ships (the Shan-class ships) and 14 medium landing ships (the He-class ships).

Profiles of Three Navy Rear Admirals

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[Article by Zhang Zenan (1728 3419 0589): "They Fought at Sea—Interview With Three Navy Admirals Cited for Meritorious Service, First Class"]

[Text] The sky is high and the weather fine on an autumn day in Beijing. Taking the opportunity of a meeting at the Navy Compound in the western suburb, I called on three rear admirals who were cited for meritorious service, first class, in battles at sea. The admirals wore "7 August" hunting jackets, and the golden rims and bands on their caps showed that they had risen from the rank and file and joined the ranks of the new generation of

flag officers of the Chinese People's Navy. Without reservation, they told me about some exciting past events.

Wang Ruichang, Hunter of the Sea

Many young people who remember the 1960's know Wang Ruichang [3769 3843 2490], hero of the "6 August" sea battle. He was now sitting right before me. Tall, thin in the face, and speaking with a heavy Shandong accent, he told me of his past experiences.

Wang Ruichang was born to a peasant family in Jimo, Shandong, in September 1935. He joined the Army in March 1953. He served in the Army first, but was later selected for training in navigation at the Combined Naval School in Nanjing. In October 1954, he was assigned to a patrol boat dadui in Penglai. He was later promoted to be skipper of an escort boat, and then deputy commander of an escort boat zhongdui in 1965. Shortly after that he was transferred to the South China Sea Fleet. On 5 August 1965, Boat 601, which had just returned to port with him on board, received orders to go out again. At 1800 hours, our boats set out to sea. At about 0140 the next morning, two enemy warships, the Chien Men and Chang Chiang, came into view. Counting on the longer range of their guns, the enemies opened fire on us first. Braving enemy fire, our boats approached the enemy ships at high speed. Suddenly Boat Commander Wu Guangxiong [0702 1684 4850] was hit by shrapnel. Seeing what happened, Wang Ruichang immediately stepped over and, standing tall at the position of the boat commander with shrapnel flying around him, loudly announced: "I am now the acting boat commander. Listen to my orders!" He resolutely ordered all guns to fire back at the enemy. In rapid succession the forward and rear guns and machine guns on Boat 601 roared, and shells trailing tracer lights flew straight to the enemy vessels. The Chang Chiang was hit by gunfire from our four boats and engulfed in thick smoke and raging fire. Its radar antenna was knocked out, forward guns silenced, rear guns deserted, and the men on its center deck were running in utter confusion. At about 0330, the Chang Chiang sank in the sea southeast of Tongshan Island. Next, our boats pursued the Chien Men and sank it at 0522 hours.

As he smoked a cigarette, Wang Ruichang told me, "After the battle, I was given very high honors by the party and the people. As a representative of those who participated in the sea battle, I attended the National Day celebrations on the rostrum of Tiananmen and was cordially received by Chairman Mao Zedong, Premier Zhou Enlai, and Comrade Deng Xiaoping at the Great Hall of the People. Since then, I have served successively as deputy dadui political commissar, dadui commander, base deputy chief of staff, deputy base commander, and so forth. However, I constantly remind myself not to forget the comrades in arms who gave their lives in the sea battle and always preserve the true qualities of an ordinary soldier. During Spring Festival in 1985, I led the icebreaker Hai Bing 723 to Nampo, Korea, where we

rescued seven ships stranded by ice. In 1988, I went on a patrol mission to the Nansha Qundao [Spratly Islands] for more than a month. Sharing weal and woe with the fighters, we each had only one glass of water per day. Despite the extremely hot weather, the morale of the comrades was high, and the mission was successfully accomplished."

Xu Shouqi, Vanguard at Sea

One of the pictures of the heroes of the "Vanguard Sea Vessel" in the booklet *Battle of Annihilation at Sea* is that of Political Instructor Xu Shouqi [1776 1108 0366]. Compared with the slightly yellowed picture, he has not changed much in appearance—still the same swarthy face and slightly thick lips symbolic of his simplicity and honesty. The difference is in his dress, which has changed from the former gray uniform, liberation cap, red collar badge, and red insignia on his cap to the snow-white admiral's uniform, broad-brim cap, and black epaulets with a gold star.

He told me that he was born in Wujin, Jiangsu, shortly after the outbreak of the War of Resistance Against Japan. He enlisted in the armed forces in September 1953 and was assigned to the same Combined Naval School with Wang Ruichang. Of course, with as many as 1,000 students in the school, he could not have known Wang Ruichang, or still less anticipated that they would become admirals together 37 years later.

After graduation in 1955, Xu Shouqi was assigned to the South China Sea Fleet. He served successively in Zhanjiang, Yulin, Shantou, Chuandao, and Guangzhou, and spent 10 years in Shangchuandao, Taishan County, during which time he was promoted from zhongdui political commissar to dadui political commissar. In 1985, he was transferred to a base to serve first as deputy director and then as director of the political department. He talked to me about his experience in the "6 August" sea battle.

The "Vanguard Sea Vessel" is a heroic fighting collective, a gunboat which displayed a fearless heroism in the Wanshan sea battle in May 1950. The gunboat forced its way into an enemy ship formation and attacked the enemy's Boat 25, which was several times its own tonnage. It pursued, approached, and boarded the enemy ship, and forced the enemies to lay down their arms and surrender, setting a brilliant example of a small boat attacking a big ship. In the "6 August" sea battle, the "Vanguard Sea Vessel" was the command vessel. At the order of its captain, Shi Tianding [4258 1131 1353], it approached the enemy ship at high speed. The boat was tossed violently by the waves and was rolling 20 to 30 degrees. Political Instructor Xu Shouqi, drenched by seawater, moved from one battle station to another to encourage the men to remain calm and bravely attack the enemy. In the heat of the sea battle, with shells flying and the air filled with gunsmoke, he appeared where it was most dangerous. When guns broke down, he led the men to get them fixed quickly, paying no attention to an

enemy shell hitting the protective armor of the forward gun. When pursuing the Chien Men, he used the interval to bring biscuits and boiled water to every fighter and urge them to fight to the end. After the enemy ship was sunk, he organized the rescue of prisoners.

More than 30 years of tempering at sea have turned Xu Shouqi into a mature political worker. During this period, he rendered meritorious service in flood-fighting and rescue in Shantou, captured a small band of intruding enemy agents on the coast of Guangdong, and intercepted smuggling ships. In 1989, he made a trip to the Nansha and landed on Huayang, Zhubi, and other reefs guarded by our forces. He told me that he has always worked in the South China Sea since he enlisted in the armed forces, and he has seen so many marine resources and so many islands to be exploited and utilized, which has given him a deep sense of responsibility. He hopes that efforts will be made to strengthen education of the whole nation on national defense and enhance the people's consciousness of the importance of the sea.

Heroic Captain Xiao Dewan

Xiao Dewan [5135 1795 5502], 48, is one of the Navy's youngest admirals. Our interview took place in his three-room home. His mother, nearly 70 years old, was also present. She was from the same place as Comrade Liu Shaoqi. Speaking with a pure Ningxiang, Hunan, accent, she talked about an interesting episode that happened in 1961, when Xiao Dewan enlisted in the armed forces without telling her.

Xiao Dewan's father died when he was very young, and he was the family's only son. His mother endured all kinds of hardships to raise him. In 1958, Xiao Dewan, then 18, left home to work in a factory. For quite some time he didn't write home, and his mother was worried. Suddenly, a letter came a naval unit in Guangdong. She asked somebody to read the letter to her, and it turned out that Xiao Dewan had joined the armed forces without her knowledge. She was both worried and sad, but there was nothing she could do. Her son was a grown-up man, and she had to let him go.

I said with a smile, "His move has added an admiral to the Navy, and we should be grateful to you."

Tall and lean, Xiao Dewan appeared sharp and competent. He said that after enlistment he was sent first to a training unit to receive education as a radio operator. Later he was assigned to work on ships. He worked his way up from squad leader to section chief and to chief mate. In 1972, he became the captain of a minesweeper. In January 1974, when the people of the whole country were joyously celebrating the Spring Festival, Ship 389, commanded by Xiao Dewan, and Ship 396 received orders to deliver supplies to the militiamen on Chenhang Island of Xisha Qundao [Paracel Islands]. Loaded with rice, canned food, fresh water, and other supplies, the two minesweepers set out from Guangzhou for Xisha via Yulin. On the morning of 18 January, they arrived at the

Jinqing Island anchorage and joined forces with Boat 271 and Boat 274, which had arrived earlier. Several days before, the South Vietnamese Navy dispatched warships to China's Xisha Qundao to carry out disruptive activities. On the morning of 19 January, four South Vietnamese warships, which were several times bigger than our ships in tonnage, blatantly blocked our path. The Vietnamese Ship No. 16 flagrantly rammed and damaged the port railing of our Ship 389. However, we exercised restraint and did not open fire despite the repeated provocations. At 1022 hours, the four Vietnamese ships suddenly lowered their command flags, concentrated their guns of various calibers, and opened fire on us. Xiao Dewan felt a violent shock and knew that his ship was hit, but he remained calm and ordered, "Fire!" The first salvo knocked out enemy Ship No. 4's navigation radar antenna. Next, together with our brother ships, we shelled the enemy's Ship No. 16, set it afire, and then turned our guns to the enemy's Ship No. 10, which began to belch smoke and lose control.

"Wasn't it reported that hand grenades were used in that 'spectacular' sea battle? What did happen?"

Xiao Dewan lighted a cigarette and said with a smile, "It was true, but also accidental. Because our ship was on a supply mission, some of our men were equipped with light arms like submachine guns, hand grenades, and so forth for use on landings. No one could imagine that during the sea battle the enemy's Ship No. 10 would become so confused under attack that it bumped into our stern hatch. Thereupon, our men opened fire with their submachine guns and tossed hand grenades at the enemy, hitting it hard. After one and a half hours of fighting, the enemy's Ship No. 10 started burning and exploding. At about 1400 hours, it went south of the Lingyang Reef. The other three enemy ships were also damaged and fled in panic. This was the first engagement of the People's Navy with a foreign navy, and we won a great victory, sinking one and damaging three enemy ships and recovering the Xisha Qundao. The whole nation rejoiced at the good news." Since the battle, Xiao Dewan has served successively as deputy dadui commander, deputy chief of naval operations, unit commander, chief of naval operations, base deputy chief of staff, and deputy base commander and received advanced training at the National Defense University. He has participated in many important tasks, including oceanic surveys and combat exercises, reaching far into the Pacific Ocean.

Ningxia Commander Stresses Role of Local Troops

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23 Jan 91 p 2

[Article by Hu Shihao (5170 0013 3185), autonomous region party Standing Committee member and Ningxia Military District commander: "Develop by Adapting To

the Situation—Center on Economic Development, Do a Good and Conscientious Job With the Militia and Reserve Service”]

[Text] Recently I led a working group to various military subdistricts and county (municipal, district) people's armed forces departments, as well as some large and medium-sized factory and mine and town and township people's armed forces departments to conduct a comprehensive study of the operations of people's armed forces departments. Since the people's armed forces departments were transferred to the localities, militia and reserve service operations have been enhanced and achieved new successes with the great amount of attention and the correct leadership that have been applied to them from party committees and governments at every level throughout the region. The Headquarters of the General Staff extended the experience of the Ningxia Hui Autonomous Region party in managing the armed forces. Throughout the region there were nine advanced people's armed forces department units and individuals commended by the Ministry of National Defense. The militia and reserve service are up to standards politically, promoting social stability. They have conducted military training, participating in military competition with five northwestern provinces (regions) and receiving seven firsts in 14 events. The major concern of party, government, and military organizations at every level and of people of every nationality throughout the region is how to adapt to the new situation and raise the militia and reserve service to a new level. We should take safeguarding the nation and stabilization of the armed forces and strengthening reserve forces as the starting point and strive to do a good job of developing the militia and reserve service.

Focus on Stability, Come To a Complete Understanding of the Position and the Role of the Militia and Reserve Service

In the new situation which centers on economic development, if we want to do a good job of working with the militia and reserve service, we must first firmly establish our concept of national defense and come to a clear ideological understanding of the position and the role of militia and reserve service in the new period.

Peace and development are the main trends in the present world situation. The peace factor is increasing, but we must also look to the fact that it is a peace with military confrontation, local wars continue unabated, and the subversion, infiltration, and corruptive activity of international reactionary forces certainly have not stopped. At home, there still is class struggle to a certain extent and reactionary elements opposed to party leadership and opposed to the socialist system still dream of “Westernization.” So, safeguarding the nation's political, economic, and social stability is presently a matter of overriding importance. The militia and the reserve force are the country's mass armed forces taking on the function of opposing external aggression and internal subversion and playing a role in stabilizing society for

which the other armed forces cannot substitute. The practice of the last few years has proved that doing a good job of militia and reserve service is a major long-range plan to guarantee a long period of peace for the nation. In times of rather stable peace, the nations of the world reduce their conventional forces and concentrate on building up reserve forces. China is a developing nation. Concentrating our efforts and doing a good job of economic development is the central task of the entire party. The party Central Committee has proposed “integrating crack conventional forces with strong reserve defense forces” as a principal defense policy. It is an important decision proceeding from China's specific national conditions. On the one hand, only by cutting back on conventional forces and concentrating our efforts on developing the economy will defense development have a solid material base. On the other hand, using limited military expenditures on force modernization, enhancing the reserve force, having the soldiers live with the people, and maintaining a small army in peacetime and dispatching many troops in wartime will really strengthen defense and ensure the smooth implementation of the grand economic development strategy. In wartime we have used inferior equipment to defeat foreign and domestic reactionaries, relying on people's warfare. In a future war, no matter what changes take place, the people still will play a decisive role. Fighting a great people's war and fully utilizing the total threat of the three integrated forces is our fine tradition and fundamental advantage.

Ningxia is the northwestern gateway to the motherland, commonly known as “the screen of Guanzhong [the central Shaanxi Plain], and the throat of Helong [Huanghe and Gansu].” Historically, it was the ancient battlefield awash with the glint and flash of cold steel and shining spears and armored horses. In a future war against aggression, Ningxia's strategic position will be extremely important. So, strengthening the reserve forces of our region and doing a good job of working with the militia and reserve service are obviously especially important.

Adhere to the Principle of the Party Controlling the Armed Forces and Ensure the Political Orientation of the Militia and Reserve Service

Insisting on the party controlling the armed forces is a tradition that has been with our party and our armed forces since they were founded and is the fundamental principle of China's armed forces development as well as a key assurance that in the new situation the militia and reserve service will always be up to political standards. Comrade Mao Zedong demanded that party committees at every level control the military as well as civilians and control the gun as well as the purse. The most basic reason that China's militia was able to grow from small to large and from weak to strong and play a powerful role in different historical periods was because it adhered to the party's leadership. In the new historical period our understanding of the party controlling the armed forces cannot stop at the general meaning, but should rise to the

high level of maintaining uniformity with the party Central Committee. At present, internationally and at home, the political struggle between infiltration and anti-infiltration, subversion and anti-subversion, and peaceful evolution and anti-peaceful evolution is extremely acute. Militia and reserve forces face various types of tests. Only if they persist in the party controlling the armed forces can they ensure the political orientation of armed forces activities so that the gun is always in reliable hands.

In persisting in the party controlling the armed forces, party committees and governments at every level must direct their main efforts toward controlling the orientation, grasping the essentials, and discussing important matters. They must strengthen politics and ensure that the party's line and general and specific policies are carried out in developing reserve forces. They must thoroughly carry out the four cardinal principles and persist in imparting socialist convictions to the militia and reserve service so that the vast number of people's armed forces committee cadres and militia and reserve personnel will maintain uniformity with the party Central Committee. They must constantly grasp and discuss important issues in the development of the reserve force and resolve them in a timely manner to ensure their smooth and healthy development. They must tackle several important, influential matters and facts and embody the mental attitude of the militia of the 1990's. They must incorporate the development of people's armed forces department groups and cadres into the organizational plan of the local party committees and actively develop ideological education. The military and local level should check on cadres together and show concern for their livelihood, and make the people's armed forces departments the stalwart core of leadership for militia and reserve service activities. The person who is concurrently the secretary should be the key leader in organizing, coordinating, propagandizing, and educating, and should establish and improve various types of effective systems to develop a situation where the whole party and the whole society together are concerned about and support the work of the people's armed forces departments so that they can develop in the proper direction.

In persisting in the party controlling the armed forces, people's armed forces departments at every level must correct their understanding, correct their position, and give good advice. Conscientiously safeguarding and upholding the dual leadership system is the fundamental principle that the people's armed forces departments must abide by and there can be absolutely no ambiguity from the people's armed forces departments at any level. They must conscientiously respect and obey the local party committee and government leadership and fully carry out their function and role. They must promptly submit documentation of people's armed forces department activities for review. In important matters they must ask for instructions and submit reports of their own accord and in initiating activities they must request

direction. They must further perfect such systems as military discussions, regular meetings, and joint reports and become adept at using policy and regulations to safeguard the dual leadership and promote the work of the people's armed forces departments.

Make the Militia a Vital Force To Contribute to the Invigoration of the Ningxia Economy

Comrade Deng Xiaoping pointed out, "The militia all are young and early middle-aged people. They should become a backbone and a main force of production. The militia is a mass military organization not removed from production, an army made up of sons of the people not removed from their home area." It is our party's consistent policy to insist on the integration of labor and the military and center the handling of the militia on economic development. The first of the militia's three major tasks is "to actively participate in socialist modernization and take the lead in accomplishing production and other tasks." Our people's armed forces departments at all levels definitely must foster the ideology of centering the handling of the militia on economic development and shouldering the two heavy auxiliary burdens of developing Ningxia and safeguarding Ningxia together. We must truly channel the work of the militia and reserve service into the course of economic development and include economic development in militia activities to achieve "bidirectional channeling."

We should actively arrange for militia and reserve personnel to participate in the development of spiritual civilization and vigorously initiate such activities as "civilized units," "civilized towns," "learn from Lei Feng," and "cultivating a new style" to improve their ideological and cultural level and mold revolutionary sentiment and advance the spiritual civilization.

In the overall situation of economic development, in planning militia and reserve activities, and in integrating production and key local tasks we must give way to economic development and draw up tasks and plan work in accordance with the realities of economic development to avoid appearing to be busy but really being idle and to guard against a "collision." We must even more actively blaze a trail for economic development and not only be in step with the central tasks of the locality, but also join forces with relevant departments. The militia and reserve services in industrial and mining enterprises must actively initiate activities to contend for top quality and achieve a higher output based on their own jobs. Rural militia and reserve personnel should take the lead in participating in "231" projects and escaping poverty and getting rich, and in initiating one soldier helping one household and one squad helping one village activities to promote economic development.

We must fully utilize the superiority of the militia and reserve service as a strong shock force to accomplish very dangerous tasks and must systematically organize militia and reserve personnel to take part in emergency disaster relief and key contract projects such as the Zhongbao

[0022 1405] Railroad Project, the Yan Huan Ding Yang Huang [7770 3883 1353 2254 7806] Project, and projects to build water conservancies, and use soldiers to train soldiers in the development of the two civilizations so that the masses can see that the militia is a force in economic development and acquire an impression of the militia of the 1990's.

We must vigorously initiate activities to use labor to provide for the military and open up the path of using labor to provide for the military to reduce the burden of government and industrial and mining enterprises and the people. People's armed forces departments at every level must put forth arduous efforts under the leadership of party committees and governments and, where conditions permit, they must raise the use of labor to provide for the military to an even higher level. Where the conditions are not present, they must actively create the conditions. They must proceed from reality in persisting in measures suited to local conditions, stirring the strong points and avoiding shortcomings; they must do what they are capable of and not go in for grandiose projects; regard the small as primary and develop large and small simultaneously; integrate the strong and the weak and use the weak to support the military; and put forth arduous efforts and not contend with the people for profits. In places with a good economic base, they can operate more small factories and small enterprises and can develop processing industries. In mountainous areas where the economy is weak, they should mainly operate planting and breeding businesses and serve processing industries. The autonomous region is putting a policy into effect to give preference to people's armed forces departments using labor to provide for the military, and local party committees and governments should actively create the conditions for using labor to provide for the military. People's armed forces departments should inspire enthusiasm and truly pay attention to getting right on the job and work hard so that gradually, within three to five years, the militia and reserve force can be self-sufficient or mostly self-sufficient in their training expenses.

Stress the Main Point of Conscientiously Enhancing the Total Development of Reserve Forces

Stress thoroughly mastering people's armed forces department development. The focal point of enhancing the development of people's armed forces departments is first to thoroughly master party committee group development in accordance with the requirements for "studying," "uniting," "honesty," and "seeking truth," and develop people's armed forces department party committee groups into strong and powerful politically steadfast, ideologically sharp, closely united, completely honest, truth seeking and practical front-line command posts actively leading militia and reserve activities. In mastering people's armed forces department development we must enhance the development of people's armed forces department cadres. The military district is preparing to establish people's armed forces department cadre schools and adopting many channels in an effort to

improve the overall quality of people's armed forces department cadres and to train people's armed forces department cadres to be of better over all quality with good political and ideological characteristics, a genuine spirit of arduous innovation and a strong spirit of exerting themselves and breaking new ground, and "multiple capabilities" in military and economic work. We must thoroughly master the standard development of people's armed forces departments and improve our work style training in conformity with Chinese army rules and regulations to develop a closely united work style vigorously and speedily carrying out policy with strict enforcement of orders and prohibitions and always maintaining the good image of the people's armed forces. We must work hard to make people's armed forces departments totally capable training areas and totally safe storehouses with a good business atmosphere in a relatively short period of time.

Stress thoroughly mastering grassroots development. We must draw up a realistic and feasible program for primary militia and reserve company development in accordance with "The Program for Grassroots Military Development" and the new "Regulations for Militia Operations," and, in accordance with the "three implementations" of militia operations—grasping the key points, laying a foundation, and raising the level—put forth an all-out effort to enhance grassroots development. Organizationally, adhere to annual organizational adjustments, strict personnel requirements, equitable distribution of the strengths of militia cadres, and active development so that militia and reserve service organization and production and administrative organization are mutually consistent and adapt to the reformed situation of local political and economic systems. Politically, a great effort should be made to initiate defense education and enhance defense concepts, improve soldiers' consciousness, and augment their political and ideological education to ensure that they are up to standard politically. In military training, we must conduct base and standardized training strictly according to plan with emphasis on the training of militia cadres and soldiers with technical specialties and constantly improve the combat capability of militia and reserve forces. In taking responsibility for the grassroots, at every level we definitely must go down to the grassroots units to investigate and study, going unit by unit and paying special attention to each level, suiting matters to local conditions, classifying leadership, thoroughly mastering the use of models, and setting up models to comprehensively promote the development of reserve forces.

Stress thoroughly mastering emergency unit development. We must conscientiously act in the spirit of relevant documents and systematically implement soundly organized emergency plans and realistic and feasible measures to ensure that when the situation arises they can be pulled out and used. We must equitably distribute personnel and cadre strengths and conduct strict political checks to ensure the purity of the forces. We must use financial resources and material resources

sparingly and persist in proceeding from reality in equipping the emergency units well. We must integrate the tasks assigned and conduct appropriate training and strive to improve the emergency units' combat capabilities and their ability to carry out their duties.

Enhancing the development of reserve forces is a long-range strategic task. The burden is heavy and the road is long. We must, under the correct guidance of the party Central Committee, the State Council, and the Central Military Commission, adhere to the four cardinal principles, arouse enthusiasm, open the way to advancement, make concerted efforts, work in a down-to-earth manner, and strive to raise the activities of the militia and the reserve service in the Ningxia District to a new level.

Officer-Soldier Relations Since Liberation Period

91CM0111A Beijing JUNSHI LISHI [MILITARY HISTORY] in Chinese No 6, 25 Nov 90 pp 25-28

[Article by Wei Shuangliang (5898 7175 5328): "The Excellent Officer-Soldier Relations in Our Army During the Revolutionary War Period"]

[Text] How is it that during the strife-torn years of the revolutionary war, our Army was able to go from small to large and from weak to strong, achieving such great astonishing success? An important aspect of this experience was the fact that our military, under the leadership of the party, carried out the proletarian line of military construction. It carried out the principle of maintaining unanimity between the officers and men and of showing respect for cadres and compassion for the soldiers. By so doing, it established excellent internal relations. This article intends to explore a little bit into this aspect of our historical experience.

I. Show Concern and Compassion for the Common Soldiers; Serve the People Wholeheartedly

The military resolutely took the soldiers as its point of departure in carrying out all its work. It took rank-and-file soldiers as its foundation, and served them wholeheartedly. The nature of the people's army determined this should be so. This fundamental principle for treating the troops was introduced in the early days of the establishment of our military, and it was further developed during the War of Resistance Against Japan and in the National War of Liberation.

Our top military leaders argued that in serving the soldiers we must first show concern for them in the political sphere. Zhu De said in August 1943 that in leading troops you have to rely primarily upon raising their class consciousness. You have to tell the troops how badly off the proletariat is and how the workers and peasants are oppressed and exploited. They have to know why they are fighting, and must understand that their only future is with the revolutionary army. In this manner you will keep the troops well in hand and will consolidate your forces. (See *Selected Works of Zhu De*,

People's Publishing House, 1983, p. 105.) He also said, "We must not overlook such issues as political merit, political position, or opportunities for political education. We must earnestly assist our subordinates in resolving these questions." (*Selected Works of Zhu De*, p. 90.) Cadres must handle the political demands of soldiers (joining the party, joining the Communist Youth League, and receiving awards for merit) in a factual manner. They must treat everyone equally and without discrimination and give positive and fair consideration to all. We must award praise for every advance made by the soldiers by giving them opportunities to kill the enemy and participate in labor contests, and by ranking people according to their abilities. Where they have weaknesses and faults, we must provide prompt assistance and correction so that every soldier will know at every moment where he needs to make an effort. By doing this, we will maintain their willingness to actively improve themselves. A second thing we must do is to show concern for the soldiers in their personal lives. Nie Rongzhen once said, "We must show concern for the personal lives of our soldiers. Every cadre must always think of his soldiers before himself." (Nie Rongzhen, *Outline Report on Military Issues*, July 1940, quoted from Wang An, *Studies in Military Management*, Military Science Publishing House, 1987, p. 75.) Peng Dehuai admonished his cadres in the battlefields of the northwest, "You must think of your soldiers at all times. When you put on a cotton jacket, you must ask yourself whether your soldiers have any to put on. When you sit down to a bowl of rice, you must ask yourself whether your soldiers have any rice to eat. When we speak of knowing whether your soldiers are hungry or not and understanding whether they are warm or cold, this is what we are talking about. This is one of the basic requirements of a commander." (Chen Haihan [7315 3189 3211], *Under the Leadership of General Commander Peng*, People's Liberation Army [PLA] Publishing house, 1984, pp. 151-152.) Zhu De even asked his cadres to be sure to remind their troops to keep fires going on cold days, cook their food thoroughly, not drink unboiled water, take showers, change their underclothing, and so on. He made it part of the system to require his cadres to visit soldiers when they became sick and to prepare meals for them. A third requirement was to maintain strict skills standards and provide the soldiers with sophisticated combat capabilities to enable them to kill as many enemies as possible while losing as little blood as possible. Each unit fully utilized every available operational opportunity. Whatever the enemy feared, that is what they trained for, and however the war was fought, that was how they trained. A fourth requirement was for correct tactical leadership. Liu Bochong once said that a commander "must not only be responsible for killing 3,000 enemies, but must also be responsible for holding his own losses to 800." Our top military leaders have often braved enemy fire at key points during battle, exercising personal command along the front lines in order to make their command more correct and to achieve great victories at the smallest possible cost. When determining the deployments for various

campaigns and battles, Peng Dehuai often reminded his commanders that those who serve as cadres during wartime should have it more difficult than their soldiers, and he stressed that they must consider what a major impact this had upon the lives of so many soldiers and masses! When he commanded campaigns and battles, he forgot about his own personal safety and comfort as he carried out careful observation of topography and enemy intelligence, carefully chose battle sites, and personally commanded along the front lines. Sometimes, in order to get an accurate understanding of the enemy, he even went forward within range of enemy guns in order to provide uninterrupted and accurate command.

II. We Always Upheld the Principle of Unanimity Between Superiors and Subordinates and Built Up Internal Relations Based on Equality

Unanimity between superiors and subordinates and equality between officers and men are major characteristics that differentiate our military from the military forces of any exploiting class. They are the unique advantage of our military, and a magic weapon that will enable our military to defeat any enemy. As early as the Jinggangshan period, Mao Zedong introduced the requirement that our military officers not strike or curse the soldiers, that officers and men be equal, and so on. In so doing, he established a new model for relationships within a people's army. By the Yanan period, our military had further developed its basic principles and systems of respect for cadres and compassion for soldiers, as well as unanimity between officers and men. In October 1937, Mao Zedong systematically introduced the "three great principles" for our Army's political work. The first of these was the principle of unanimity between officers and men. Zhu De offered a report entitled *On Battlefields in a Liberated Area* in which he clearly stated, "Since there are two different types of armies, there are two different methods of leading soldiers. The method used by armies which are not of the people or are opposed to the people look upon soldiers as slaves." This type of army "makes broad use of the system of striking and cursing, surveillance by special agents, and even assassination of soldiers. All these things indicate that they do not acknowledge the independent personality of subordinates and soldiers, and that they use a unitary system of absolute obedience. Subordinates and soldiers are cowed into obedience, and dictators are able to use their troops in whatever manner they choose." In complete contrast, the "8th Route Army and the New 4th Army thoroughly destroyed the system of oppression that had been used by armies for thousands of years." They "acknowledged equality between officers and men, recognized distinctions only between duties, and did not allow military officers to oppress soldiers or superior officers to oppress subordinate officers." The implementation of unanimity between superiors and subordinates and equality between officers and men, the elimination of striking, cursing, and corporal punishment as a system, and the assurance of the personal dignity of soldiers would not be violated, became a strong cohesive force within the people's army. In 1944, the respect for

cadres and compassion for soldiers campaign was carried out vigorously in Yanan, and further consolidated internal unity within our military. The great masses of cadres showed much concern for their soldiers, cared for their political advancement and personal welfare, and listened intently to their soldiers' opinions. Soldiers respected and cared for their cadres, observed discipline of their own accord, and obeyed orders. As a result, a unified and fraternal spirit arose among the troops.

Not only were cadres at every level the active advocates of unanimity between superiors and subordinates and of equality between officers and soldiers, they were also model practitioners of these principles. With respect to political equality, apart from distinctions between superiors and subordinates for the sake of tasks, no one enjoyed any greater degree of dignity than any other man. Everyone treated one another as equals. Cadres respected the democratic rights of soldiers, and acknowledged and defended their individuality. Soldiers had the right to supervise officers and to raise criticisms and suggestions. The system of striking and cursing was abolished. Officers were not allowed to inflict corporal punishment upon their soldiers or to humiliate them. They were not even allowed to tie up captured enemy soldiers, strip their clothing, or to strike or curse them. Once enemies had surrendered their arms, they were treated as brothers. As for equality and daily living, there was no distinction between officers and soldiers. Mao Zedong and other members of the central leadership, no different from the officers and men, lived in caves, wore coarse clothing, and ate coarse rice. Everyone from the highest military commander down to the common mess cook received the same living expenses and the same spending money. As for equality in the area of discipline, everything from the "three main rules of discipline and six points of attention" of the Jinggangshan period to the "three main rules of discipline and eight points of attention" that were promulgated in October 1947 by the headquarters of the Chinese People's Liberation Army all demanded unanimity between officers and soldiers, unanimity throughout the military, and that all people be equally accountable to discipline.

In implementing the policy of unanimity between officers and men, our military has placed great emphasis upon the fact that cadres and soldiers must interact closely and form a single body. This represents the accomplishment of the basic content of the policy of unanimity between officers and men, and it is also an important assurance of its efficacy. For this reason, Mao Zedong stated repeatedly from the time of the Yanan period and up through and beyond the founding of the nation that "we must link up closely with the masses, and officers and men must interact intimately." Mao Zedong himself set an example. During the period of great production in Yanan, he worked together with soldiers to plant their fields, and during rest periods he always chatted with the soldiers. Zhu De was already half a century old when he arrived in Shanxi, but he often worked alongside the soldiers collecting manure and

planting vegetables, and he played basketball with the young people. Under their leadership, cadres at every level made strict demands upon themselves as if they were regular soldiers. Of their own accord, they ate, lived, worked, trained, and sought entertainment alongside the regular soldiers. Everyone went through good times and bad together and treated each other like brothers. In the eyes of the soldiers, the cadres were their older brothers and friends. For this reason, our military gained the affection of the masses and attained a high degree of cohesiveness. We were able to attract large numbers of youth to participate in our war effort no matter how difficult our situation. Soldiers that we took captive were quickly converted to our cause and soon seemed like completely new people.

III. Believing and Relying on the Soldiers and Carrying Out Democratic Management

The policy of believing and relying on the soldiers and carrying out democratic management was introduced by Mao Zedong soon after our Army was founded, and it had become fully developed by the Yanan period into a set of principles of military government whose fundamental content was the "three great democratic principles." This principle fundamentally eliminated all old methods for managing armies and demonstrated the essence of our military as a new-style army of the people. It demonstrated the fact that our Army derived its policies from the masses, and ensured victory over our enemies.

As far back as the Jinggangshan period, Mao Zedong introduced the idea that "in China not only do the people need democracy, but so does the military." He stated, "Democracy within the military will be an important weapon for destroying feudal mercenary armies." In late 1947, Mao Zedong drafted an internal party instruction entitled "The Democracy Movement Within the Army" in which he systematically classified democracy within the Army as political democracy, military democracy, and economic democracy.

By using the spirit of democratic management throughout the military, working hard to establish democratic relations between officers and men, and establishing democratic lifestyles, much was done to instill a sense of pride and responsibility in the soldiers by making them "masters of the house." In so doing, relations between officers and men were also made more intimate, and the willingness of officers and men to observe and maintain discipline of their own accord was strengthened.

Democratic management within our Army consisted first of all of fully trusting the soldiers to carry out self-management. Between officers and men, officers are the primary party to contradiction. For this reason, cadres at all levels had to actively create necessary conditions, lead their men in launching broad-based democratic movements, and spur them to participate in

management. Cadres at every level also welcomed soldiers and subordinates to monitor cadres and superiors and raise complaints and criticisms regarding management-related issues. Also, cadres took the initiative to carry out self-criticisms and to publicly evaluate mistakes they had made in the course of their work. They resolutely accepted the opinions of soldiers as long as they were correct. The great masses of soldiers felt the sincerity of the cadres and willingly accepted the management exercised by the cadres. They took the initiative to evaluate their own shortcomings, help each other, educate themselves, and manage themselves. A second aspect of democratic management within the Army was the fact that it brought into play the oversight role of soldiers, which prevented the occurrence of unhealthy tendencies. In order to ensure the political positions and democratic rights of the soldiers, economic committees were set up at the company level. Representatives chosen by soldiers assisted the company commander in managing living expenses and rations. All accounts were public and managed in a democratic manner. At the same time, Soldier Committees were established (i.e., today's Revolutionary Soldier Committees). When major issues cropped up, everyone was called together for discussions, and all people from officers on down to mess cooks and stablehands gave their opinions. Corruption, waste, and encroachment upon the rights of soldiers seldom occurred. A third aspect of democratic management in our Army was respect for the soldiers' creative ability, we supported and organized efforts by soldiers to volunteer their ideas and strategies. In the area of military training, we discarded old-style training. We took as our teachers whoever had the most talent, and implemented a mass training movement in which officers trained soldiers, soldiers trained officers, and soldiers trained soldiers. In wartime we held "brainstorming sessions" or "Zhu Geliang sessions" in which we held discussions with the soldiers and listened to their opinions, thereby tapping the revolutionary enthusiasm and creative ability of the soldiers. During the Shijiazhuang Campaign in November 1947, faced with a situation in which the enemy held a highly fortified city while our own army lacked experience in assaulting fortifications, General Commander Zhu De sent out a call to "bring together the wisdom of all the commanders throughout the Army." He went down to fendui combat units and participated in coordination meetings between infantry and artillery units prior to battle, explaining enemy defenses and our own difficulties to the commanders and asking everyone to volunteer ideas on how to solve the problems. On the basis of this prebattle preparation, the officers and men who fought in these battles created a very effective operational method in which tunnelling was combined with shelling. By using "bravery plus skill," in less than a week they captured Shijiazhuang, which the enemy had boasted "could be held for three years," destroyed more than 24,000 enemy and puppet personnel, and set a glorious precedent for our Army in carrying out an assault upon a fortified city. The facts have proven that relying on soldiers to carry out democratic management does not diminish the

authority of cadres; on the contrary, it enables the cadres to gain the respect and affection of their soldiers. It does not hinder efforts to concentrate and unify command; on the contrary, concentrated and unified command has been rendered more flexible and effective.

IV. Military Officials Should Lead the Way for Their Troops and Set an Example for Them

The key word in the management of troops is leadership. Cadres should set an example, serve as a model, and have their men "follow me." In the big production movements in the liberated areas, from the central leadership down to the grassroots level, cadres at every echelon led the way. Leading cadres such as Zhu De, Zhou Enlai, and others earnestly learned to spin yarn, and even participated in a military and civilian yarn-spinning contest that was held in Zhaoyuan. The famous 359th introduced the slogan "We must not let a single person stay off the battlefield of production." The commander and political commissar of the brigade, Wang Zhen [3769 7201], worked harder than anyone else, achieved excellent results, and was named a model worker during the big production movement in a border

area. In everyday life, cadres at every level were the first to put in hard work and the last to enjoy comfort. Good shoes and good clothes always went first to the soldiers, while cadres themselves got only what was left over. During the War of Liberation, Brigade Commander Pi Dingjun [4122 1353 6874] passed with his troops right by the front door of his home, which he had been away from for more than 10 years, but he did not even enter. This act was praised far and wide. During the period of the Revolutionary War, our Army accumulated a vast amount of experience in leading troops. This is one of the advantages and special characteristics of our Army, and we should carry it forward to greater glory. At present, it would be of great practical significance for us to look upon the effort to increase the intimacy of relations between officers and men as a measure to preserve the nature of the people's army and as a measure to ensure its stability; resolutely oppose vulgar relationships and other such unhealthy tendencies; continuously strengthen internal unity; improve cohesiveness and combat capability; and ensure that our Army will always be victorious.

EAST REGION

Anhui Leaders Discuss Enterprise Ideological Work*OW2402182891 Hefei Anhui Provincial Service
in Mandarin 1100 GMT 23 Feb 91*

[Text] In order to discuss the question of how to improve ideological and political work in Anhui's rural enterprises and further promote steady and sound development of rural enterprises, the propaganda department of the provincial party committee and the provincial town and village enterprise bureau held a provincial meeting on ideological and political work and business operations of rural enterprises. The meeting began in Hefei on 22 February.

Provincial leaders Fu Xishou, Yang Yongliang, Chen Tingyuan, Wang Sheyun, and Meng Yiqi attended the meeting. The leaders awarded plaques and prize certificates to 34 advanced units for their ideological and political work, 43 advanced units for enterprise management, and to other prize winners.

Yang Yongliang, deputy secretary of the provincial party committee, made a report on how rural enterprises should do an even better job in studying and implementing the guidelines of the Seventh Plenary Session of the 13th CPC Central Committee and the third session of the fifth provincial party committee.

He pointed out: Our party and government have always placed great hopes on the development of rural enterprises. The tasks of Anhui's rural enterprises in the days to come are to develop and improve. They should not have any misgivings and should not waver.

He emphasized: At present, workers and staff members in rural enterprises should serve as a role models in the effective study and implementation of the guidelines of the Seventh Plenary Session of the 13th CPC Central Committee and the third session of the fifth provincial party committee. Implementing the guidelines of the two sessions is a very important and imperative task for leaders, cadres, and workers in rural enterprises, as well as a main task for all rural enterprises in the next period. Leaders at various levels of rural enterprises should pay attention to doing good ideological and political work and carrying out education in socialism among workers and staff members. In particular, leaders should do a good job in publicizing the guidelines of the Seventh Plenary Session of the 13th CPC Central Committee and the third session of the fifth provincial party committee among workers and staff members and in organizing them to study the guidelines. This will promote socialist education and the implementation of the guidelines of the two sessions in rural areas.

Vice Governor Wang Sheyun spoke on how to promote and maintain sound development in rural enterprises.

The meeting also conveyed to its participants the guidelines of the national meeting on ideological and political work in rural enterprises, discussed and arranged ideological and political work in Anhui's rural enterprises during 1991 and the Eighth Five-Year-Plan period.

Dou Yongji, deputy head of the propaganda department, delivered a work report entitled Further Strengthen and Improve Ideological and Political Work and Create Favorable Public Opinion for Sound Development of Rural Enterprises.

Political Abuses Still Problematic in Shanghai*OW1003223391 Shanghai JIEFANG RIBAO in Chinese
3 Mar 91 p 1*

[By reporter Tan Xiaowei (6151 1420 5633)]

[Text] "Leading authorities in Shanghai have accomplished a great deal of work in enforcing the two sets of regulations governing administrative ethics, but they should not overestimate their successes, nor should they underestimate their problems." This is the assessment made by the Shanghai Municipal Bureau of Supervision after examining the implementation of the two sets of regulations governing administrative ethics.

It has been almost one year since the the Shanghai Municipal Party Committee and the municipal government promulgated the two sets of regulations—"Several Regulations Governing the Administrative Ethics of Personnel of Party and Government Organizations" and "Several Regulations Governing the Administrative Ethics of Leading Cadres of Enterprises and Establishments in Shanghai." According to incomplete statistics of the period from 15 March last year—the date these regulations became effective—to the end of last October, 4,231 cadres in Shanghai either rejected more than 580,000 yuan in kickbacks or monetary rewards, or turned them over to the state; and 24,613 cadres turned over to the state 66,286 gifts with a total value exceeding 1.23 million yuan. These cadres included 740 bureau-level cadres, 3,794 department-level cadres, and 24,310 sectional or junior cadres. A total of 585 cadres were charged with paying more than 160,000 yuan for reparations or for violating regulations; 192 cadres had their illegal incomes of more than 260,000 yuan recollected or confiscated; 72 cadres were fined; 52 cadres were publicly censured; and more than 400 cadres were disciplined by means of administrative measures.

The supervisory authorities maintained that the successes achieved in implementing the two sets of regulations also can be observed from the 2,426 other regulations and the 1,100 supervisory regulations and measures which departments at various levels in Shanghai have drawn up or amended to promote administrative ethics. Thanks to these regulations and measures, cadres began to behave when performing their duties and certain "hot issues" reported by the masses were being resolved. In Jiading County, five cadres who were deputies of town or township bureaus have had

their home telephones removed; and 30 other cadres are required to pay the telephone bills themselves. In Songjiang County, cadres who spent public funds to purchase 570 liquified-gas stoves were charged to repay 285,000 yuan to the government. The masses said, "We feel better now."

The examination also shows, however, that certain problems remain to be resolved. Some leading cadres have talked a lot about their successes and said they "felt good." But when the examiners talked to grassroots cadres and the masses individually, they cited all sorts of examples indicating how people at the grassroots could counteract upper authorities' instructions and orders with all sorts of measures. For example, the expensive gifts some leading cadres turned over to the higher authorities could more often than not be resold to them again at very low prices. The managers of some grassroots enterprises also pointed out that "these successes can never be overestimated!"

It is learned that the people greatly resent the following problems: First, the huge expenditures incurred by certain local departments to hold meetings in other locations and spending more money than authorized on food, drink, gifts, and travel. Second, the amount of public money leading cadres of enterprises and establishments spend to install private telephones and take driving lessons. Third, the habit of some cadres to infringe on state and collective interests and victims lack the courage to report the infringements. Fourth, the frequent lack of discipline among Chinese cadres working at Sino-foreign joint ventures due to a lack of effective measures for supervising and controlling them.

Because of these problems, Wu Deran, director of the Shanghai Municipal Bureau of Supervision, pointed out that a lot of hard work is still required before the two sets of regulations can be effectively implemented. He said that all leading cadres must dare to do actual work and deal with problems in areas under their supervision. Supervision, he added, must also come from the media. Only when everybody is involved in supervision can there be real administrative ethics, he said.

Defense Plans Set To Counter Mainland Attack

91CM0299A Hong Kong CHENG MING
[CONTENDING] in Chinese No 1, 1 Jan 91 pp 44-48

[Article by Lin Tung (2651 0681): "Taiwan's Precautions Against Chinese Communist Military Movements"]

[Text] Although people are confused by Chinese Communist plans for an armed attack on Taiwan, so long as Taiwan is united internally, a Chinese Communist attack on Taiwan can scarcely succeed. Alternatively, if there is internal panic at the prospect of war, Taiwan's future will be worrisome.

Focus on a Series of Military Exercises in the Taiwan Strait

On 9 December, Qian Weichang [6929 0251 7022], CPPCC [Chinese People's Political Consultative Conference] deputy chairman, threatened in Guangzhou that, should the reunification issue be drag on for long without a decision, Communist China would use force against Taiwan. These words reveal a new trend in Communist China's policy toward Taiwan.

For a long time Communist China has announced three conditions under which it would use force against Taiwan, as follows: 1) Taiwan independence; 2) foreign invasion of Taiwan; 3) internal chaos in Taiwan; and 4) Taiwan's production of a nuclear bomb. Since the United States rigidly controls Taiwan's nuclear industry, Taiwan's plans to make an atomic bomb have fallen through completely. Thus, the fourth condition has been rarely raised in recent years. The information that Qian Weichang recently released in his capacity as director of the Society for the Promotion of the Peaceful Unification of China to a team meeting of the Macao Basic Law Drafting Meeting on "unification best in three months" [as published] demonstrates the urgent frame of mind of the Chinese Communist oldsters toward the unification issue. It also shows that the Chinese Communists have derived extremely important inspiration from U.S. President Bush's handling of the Persian Gulf crisis, namely that intimidating words and the massing of forces are indispensable methods for driving an adversary to the negotiating table.

In fact, after Iraq invaded Kuwait, the Chinese Communists conducted a series of amphibious landings and long-range air drop exercises on offshore islands similar to Taiwan. According to a 13 October JIEFANGJUN BAO report, at the end of September a flotilla composed of a passenger ship named Swan, and two freighters loaded with more than 1,000 officers and men and weapons from a certain antiaircraft artillery brigade in the Shenyang Military Region went through a day and a night of sailing, resisting air attacks, and traversing minefields, safely reaching a certain northeast China coastal port to complete its ocean transportation mission. JIEFANGJUN BAO said that, "inasmuch as 95 percent" of the antiaircraft artillery brigade "had never been on an oceangoing ship, shipboard anti-sea sickness

training was conducted and motion-sickness medicine was issued with the result that only 4 percent of the officers and men became seasick. The escorting Naval Air Force conducted exercises in 10 skills including putting out deck fires, plugging leaks in ship holds, sea rescue, mine laying, and aerial firing. This reinforced combat protection capabilities while transporting military units by sea.

Again on 5 November JIEFANGJUN BAO reported that on 20 October the Chinese armed forces conducted an air drop exercise on an island for the first time. It said that "the weight that each paratrooper carried was no less than 40 kilograms, and that they successfully landed in a four-kilometer wide forest and marshland area, as well as on five 280-meter-high beachheads. This concluded this airborne unit's parachute jumps in various kinds of complex terrain including plateaus, dense forests, and islands, as well as its field warfare survival training."

The 30 November RENMIN RIBAO overseas edition carried photographs of live-ammunition combat exercises conducted in the Nanjing Military Region facing Taiwan. The photographs showed the units engaged in the exercises sending out combat aircraft, armored personnel carriers, and radiation emanation simulators. On 10 December, the China News Agency reported a live field maneuver air defense exercise in which the two sides employed group armies. The exercise began in early November and lasted more than 20 days. The air space involved covered five provinces and regions, and more than 300 sorties were launched. The Guangzhou Military Region sounded an end to the exercise a few days ago. According to 6 December statistics from Guangzhou Military Region Air Force combat units, the strike rate in fighter aircraft aerial interception was 91 percent. The first attack strike rate was more than 83 percent. This was the Air Force's first such combined arms live field maneuver exercise (blue representing Kuomintang forces and red representing Communist forces).

Chinese Communists Hurrying Construction of Aircraft Carrier

In the October issue of JIANCHUAN ZHISHI [NAVAL AND MERCHANT SHIPS], the Chinese Communists disclosed that they now have 130 submarines, of which 123 are conventionally powered submarines and seven are nuclear powered. Eleven of them were Soviet-built, and 16 were assembled on the mainland from components supplied by the USSR. All of the others were built in shipyards at Shanghai, Wuhan, and Guangzhou. The nuclear-powered submarines and the missile submarines were built at Huludao, Luda, and Lushan. Research and development goals for the period 1988 through 1991 are new-type nuclear-powered attack submarines as well as high-speed ES5E diesel electric submarines. Submarines make a fine tool for Chinese Communist use in blockading Taiwan, so their intention must be to attack Taiwan.

In addition, following the promotion of former Navy Commander Liu Huaqing to deputy chairman of the Central Committee Military Commission, the construction of an aircraft carrier became a key project. Funds totaling 2.6 billion were allocated for research and development of a 20,000 ton light aircraft carrier capable of carrying 25 aircraft, and 12 field-grade officers were selected to undergo ship flight training at the Guangzhou Naval Academy to become all-around aircraft carrier commanders. In order to improve marine reconnaissance, the Chinese Communist Navy has refitted and painted a large number of over-age gunboats, mine-sweepers, and cargo ships, installing fishing gear and electronic detection equipment on them. They are to mingle with fishing boats entering Taiwan ocean areas to conduct reconnaissance. The existing armament on these spy boats has not been dismantled. It has simply been covered up and camouflaged. During a "people's war at sea" when large numbers of boats are in motion at the same time, these spy boats will be a main force.

Lack of Assistance in the Face of a Chinese Communist Attack on Taiwan

Strategically, the Kuomintang is confident that communism is bound to fail. For example, in a speech on 8 December before a workshop on "Relations Between Both Sides of the Strait and Mainland Policy" under the sponsorship of Hsu Hsin-liang's [6079 0207 5328] office, Shi Chi-yang [2457 0796 2254], the deputy prime minister and concurrent director of the Mainland Committee, said: "Communism on the China mainland cannot survive beyond the year 2000." He also called upon those present to "be more open-minded in accepting the approach of the era of communism's collapse."

Tactically, however, the top echelon of the Kuomintang has not lost its apprehensions. For example, Minister of National Defense Chen Lu-an told CNA reporters in early December that despite the increasingly frequent contacts between both sides of the strait, Communist China's basic policy toward Taiwan continues without major changes. "A look at history shows that the German invasion of Poland, Italy's invasion of Abyssinia, and the most recent Iraqi invasion of Kuwait all occurred at times when precautions were most lax. We must constantly augment national defense forces so that we have sufficient strength to avoid war. We must not allow the other side to feel that we have become lax." When Major General Liu Shu-wen [0491 2579 2429], deputy director of the Intelligence Bureau of the Ministry of National Defense, told the Legislative Yuan on 14 November that the "Iraq-Kuwait war may produce an effect with regard to a Chinese Communist attack on Taiwan," he said "Iraq used negotiations to cover military movements. President Saddam Husayn deployed 100,000 troops to the border while guaranteeing that he positively would not use force. Nevertheless, once the first round of talks broke down at Jiddah, the Iraqi Army immediately commanded its troops to invade. Even should the Chinese Communist authorities explicitly

guarantee that they "positively will not use armed force to liberate Taiwan," since all is fair in warfare, the Kuomintang cannot let down their guard to the slightest degree. If they do, they may very easily go the way of Kuwait."

During the election of central government civil servants at the end of 1989, some Democratic Progressive Party [DPP] candidates advocated abandonment of Chinmen and Matsu, cutbacks in the number of troops garrisoning the offshore islands, and removal of restrictions on trade between Chinmen and Xiamen. In this connection, the Ministry of National Defense repeatedly stated that "such a course is blind to the facts and is the self-destruction of fortifications that will cause the removal of the protective screen for the recovery of bases. This will lead to danger."

Taiwan intelligence shows that the Chinese Communist vice president, Wang Zhen, said openly: "The Iraq-Kuwait affair provides excellent testimony. Clearly, armed solution to the Taiwan problem is most expeditious. An attack on Taiwan is a Chinese internal affair. No country in the world has reason to interfere, nor have they any means of stopping us." Intelligence Bureau deputy director Major General Liu acknowledged in this regard that "should Taiwan suddenly come under armed attack from the Chinese Communists, the number of helping hands extended at once by countries of the world would be few and far between for no reason other than a lack of direct benefit or harm to them."

This high-level Ministry of National Defense official recognizes that Communist China desires to launch a lightning attack to bring down Taiwan in the shortest possible time to create a fait accompli. At such a time, even if some people in other countries of the world wanted to uphold justice, they would have no way of doing so.

He recognizes that, in terms of manpower and weapons, Taiwan is inferior to the mainland; therefore, the Kuomintang forces must employ the following four tactics in dealing with them: 1) Use of electronic monitoring and international satellite reconnaissance of large-scale deployments of Chinese Communist forces in order to steal a march on the enemy by destroying the enemy's combat aircraft and naval ships on the ground and at their piers to blunt the Chinese Communist's first attack wave. 2) Because of the gap between the numbers of aircraft, ships, and firepower, the Kuomintang forces would have to concentrate mostly on attacking Chinese Communist military transports and landing craft. In the air, bombers and transport aircraft would be the major targets in order to weaken greatly the Chinese Communists' ability to land, to drop bombs, and to land airborne forces on Taiwan, Penghu, Chinmen, and Matsu, and to reduce their ability to inflict casualties. 3) After sustaining a large amount of damage from the first several waves of offensive action by Chinese Communist forces, Kuomintang forces held in reserve in eastern Taiwan as part of the Chiashan Plan would coordinate with regular

and reserve Army forces to fight decisive engagements with Chinese Communist beachhead forces. In view of the principle that an attacking force should outnumber a defending force three to one, and in view of the limitations of Chinese Communist sea transport capabilities, the defending forces' stratagem of fighting decisive battles on beachheads would have a good chance of success. 4) In view of the Chinese Communist armed forces' tradition of being adept at fighting short wars, but not being able to stand long wars, failing a quick fight and a quick decision in an attack on Taiwan, troops bogged down in a war would precipitate internal struggles. Therefore, Taiwan must make the psychological preparations necessary to fight a long war of resistance to wear down the opponent.

Taiwan's Inability To Buy Weapons Despite Having the Money To Do So

Taiwan has a plan for "first destroying the enemy's aircraft and ships on the ground and at the piers," but, during the summer of 1990 when he became prime minister, Hao Po-tsun said, "Our national defense strategy calls for only the defense of Taiwan, Penghu, Chinmen, and Matsu. There is no strategy for a military counterattack." In order to trim military expenditures, the armed forces have formulated an elite troop policy that anticipates a 10,000-man reduction in the Army by 30 June 1991 and cutbacks in the command system by approximately 20 percent. Some units will have to be dissolved or merged.

The predicament currently being faced in the defense of Taiwan is having the money but being unable to buy weapons. Taiwan can only fabricate the fuselage and hulls of high-performance aircraft and naval ships. It has to depend on foreign manpower and technical assistance for engines and electronic components. In the procurement of conventional weapons, the emphasis is on the United States. In recent years, there has been a gradual trend toward procurement from elsewhere, even to the point of sounding out the availability of Soviet makes. For example, on 27 November, Chen Lu-an told the Legislative Yuan that if the USSR is able to provide aftersales service and weapons maintenance, Taiwan would consider purchases of weapons from this weapons-advanced country. Recently, Taiwan has been keen on developing trade with the USSR as well as providing grain assistance, and some necessary warm-up exercises have been done.

Taiwan is a small island with an area only 1/266th that of the mainland, thus defense of Taiwan emphasizes sea and air superiority. During the 1958 battle of Chinmen, the Kuomintang forces' brilliant war record was 20 victories to 2 losses in the sea war, and 32 to 3 in the air war. Nevertheless, during the past more than 30 years, the Kuomintang forces have long since lost their sea and air superiority. Taiwan has only slightly more than 500 aircraft, placing the Kuomintang forces in an absolutely inferior position. However, a delicate strategic balance has always been maintained in the Taiwan Strait. This

should be attributed to Taiwan's offers of large gold rewards to defecting Chinese Communist pilots.

A qualitative analysis shows the MiG 19 (F-6) to be the Chinese Communist Air Force's main aircraft, with a few score MiG 21's (F-7's) deployed along the southeast coast. The high-altitude performance of these two kinds of MiG's is better than that of the Kuomintang's F-104 and F-5E, but their medium- and low-altitude performance and fire-control systems are poorer. The Chinese Communists have approximately 200 military aircraft deployed along the southeast coast, but they have deployed 1,200 aircraft from 250 to 500 nautical miles to the rear. They could be moved to the front line overnight.

Chinese Communist airfields on the Fujian front can accommodate 1,600 combat aircraft, but such a large number of aircraft could not attack Taiwan all at once. They would have no way to even turn around. They would have to attack wave upon wave in groups of 200. Taiwan's existing combat planes could not deal with such an onslaught. It takes only eight minutes to fly from Fujian straight to Taiwan, and Chinese Communist ground-to-ground missiles would also be fired from the opposite shore. Therefore, the Kuomintang have hidden some of their aircraft in mountain caves in the eastern part of the island, where they have also established a command center and maintenance facilities. Air Force bases in both the eastern and western parts of the island maintain a 24-hour alert status with aircraft standing by at the end of runways and ready to take off to do battle at any time. In addition, the Air Force also maintains an around-the-clock aerial patrol, ready to mount an interception at once should circumstances require. In order to gain sufficient early warning, Taiwan has always wanted to purchase key U.S.-manufactured early warning aircraft. In the summer of 1990, acting on behalf of the U.S. Grumman Corporation, Chen Hsiang-mei [7115 74349 2734] offered Hao Po-tsun the sale of four E2C early warning aircraft, each one at a quoted price of \$800 million. After becoming chief-of-staff, Air Force Commander Chen Shen-ling [7115 8590 7881] said that the E2C was not suited for use with Taiwan's one-man fighter aircraft. Chen Hsiang-mei then lowered the price at once to \$600 million per aircraft, but Taiwan wanted to buy only E2T's. No deal has been concluded as yet.

Taiwan Has Improved Its Capability To Fly to the Opposite Shore

Since it is employing an inferior force against a superior force, the Kuomintang armed forces must adopt a defensive posture, doing all possible not to engage in decisive engagements in order to avoid being worn down little by little. However, in order to counterattack, they must have the ability to fly to the opposite shore. Even though Taiwan's 50 F-104's are now 30 years old, its 250 F5E's are still able to handle the Communists F-7's, but they are slightly inferior to their MiG-23's. During the late 1970's, Taiwan wanted to buy U.S.-made F-20's or F16's, but the deal fell through when Taiwan and the

United States broke diplomatic relations. Then Taiwan independently developed the IDF fighter with the goal of attracting U.S. arms dealers to sell to Taiwan F-16's of the same level.

Recently, the Chinese Communists have arranged to buy new Su-27 fighter aircraft from the USSR, and they have arranged to buy MiG-29 engines for the purpose of refitting their F-8 II fighters. These engines would increase thrust from 14,500 pounds to 18,900 pounds. As a result, Taiwan is doing all possible to get the United States to sell it F-16CD fighters, or at least to sell it F-18 fighter engines in order to increase greatly the thrust of its IDF fighters.

Taiwan's IDF fighter, on which NT\$200 billion [new Taiwan dollars] was spent for research and development, is similar in performance to the U.S.-built F-16CD, and spare parts are interchangeable. According to test pilot Wu Kang-ming [0702 1660 2494], the IDF's performance surpasses that of the Chinese Communist F-8 II. However, because of U.S. pressure, its speed and horsepower are limited. The small size and light weight of the originally designed fuselage means that the steady addition of equipment later on, which increases weight, is bound to impair speed. The engines currently in use have a thrust of only 8,800 pounds each. When fully loaded with fuel and live ammunition, the planes can reach a speed of Mach 1.8. In addition, the IDF's various onboard electronic operating systems are ahead of those on the F-16. This should greatly increase the IDF's air intercept and dogfight capabilities.

Now that the IDF has been successfully test flown, it is in the preliminary stage of mass production. If the aforementioned engine purchases succeed, this will be of great assistance for the research and development of a second-generation fighter, the ADF. Unfortunately, the Chungshan Science Academy's Aviation Development Center has a production capacity of two planes per month at most. Since the old F-104 fighter planes will be taken out of service, there will be a period for Taiwan's Air Force when new planes are not replacing old ones. On 5 December, the Italian Airplane Manufacturing Plant broke free from Chinese Communist political pressure, displaying in Taiwan two AMX single-engine fighter aircraft as well as one multipurpose G-222 twin engine transport. A group of nearly 40 high-ranking military officers, including Taiwan Air Force commander Lin Wen-li [2651 2429 4409], attended a sales fair instruction meeting at which arrangements were made for IDF test pilots to test fly the aircraft. That the Italian arms dealers were able to demolish taboos to come to Taiwan to promote sales shows the decline of communism. European nations' desire to open wide the door to new markets for their high-technology military wares provides Taiwan new hope for improving its defense forces.

"Fuyung Plan" Emphasis on Minelaying Operations

In any future Chinese Communist attack on Taiwan, it will be necessary to use submarines to blockade Taiwan's

major ports and shipping lanes, and to lay mines in Taiwan's ports and shipping lanes. This would pose a major threat to Taiwan, which is dependent on imports and exports. For this reason, the Kuomintang armed forces will improve their minesweeping and their laying of mines in enemy ports to turn the tables in combat situations. The "mine hunting program" and the "Fuyung plan," which were begun in 1984 are now in the completion stage.

The "Fuyung plan" calls for complete replacement and maintenance of the Navy's existing Yung-type minesweepers. Communist China has 32 minesweepers, but Taiwan has only 14 Yung-class minesweepers. Two of the six mine-hunting ships that the Navy headquarters ordered from abroad have been delivered. When the additional four on order arrive, together with four submarines and antisubmarine helicopters, they will make no small contribution to the maintenance of a balance of forces on both sides of the strait. The "mine hunting program" calls for an upgrade in minesweeper class from 3 to 2, ranking with the existing "Shan" and "Chung" types, and with transport ships. The rank of the ships' captains is also to be raised from lieutenant commander to commander. Since its Navy is weak, Taiwan's current emphasis on minelaying warfare is tactically correct, because the victim of a mine may be a destroyer, a transport ship, or a submarine whose value is 1,000 or 10,000 times greater than that of the mine itself. A properly designed mine area is potentially as dangerous as a special flotilla.

Taiwan's naval ships are mostly old post-World War II U.S. ships that have long since exceeded their service life. In January 1990, the Ministry of National Defense ordered from France six 1,200-ton Lafitte-class patrol ships and nine escort ships. In the end however, the deal fell through as a result of a "bilateral lowering of the level of relations" between Communist China and France. An order for Perry-class naval vessels from South Korea was also dropped because of the greed of the other party. Arrangements are now under way with Germany for the purchase of F-123 patrol boats with antisubmarine and air defense capabilities, and Taiwan is itself manufacturing eight PFG-2-type missile cruisers. These are manufactured from an improved design of the U.S. Perry-class warships. Equipped with Taiwan-manufactured Hsiungfeng Model 2 missiles, and able to carry antisubmarine helicopters, these eight Perry-class warships will be able to fend off Communist China's 14 Luda-class missile destroyers. These eight Perry-class warships have a 4,200-ton displacement. They are being built with U.S. assistance in the China Dockyard. Plans call for their completion within several years at a total cost of \$5.18 billion. The first ship will be finished and go into service in the spring of 1993. After these eight guided missile cruisers replace the Yang-class destroyers currently in service, the Kuomintang Navy's ability to wage naval warfare will increase.

On 23 November, the China Shipbuilding Corporation-built Wuyi high-speed fuel and ammunition supply ship

formally began sea operation. This ship is 162 meters long and 22 meters abeam. It has a draft of 8.6 meters, a displacement of 17,000 tons, and a deadweight capacity of 9,300 tons. It is fitted with four marine fueling stations and two cargo delivery stations. It can replenish three Navy ships simultaneously. It can complete refueling of a destroyer in approximately 50 minutes, and it can replenish cargo at 10 tons per hour. Once this ship enters naval combat formations, it will increase the Kuomintang warship combat radius to 7,000 nautical miles, giving the Navy a genuine blue water combat capability.

Taiwan's Organization of an "Imaginary Enemy Group"

In a future attack on Taiwan, the Chinese Communist armed forces may very well use the terrain of the Penghu Archipelago [Pescadores] for protection, or mix in among fishing boats to launch surprise attacks against Taiwan vessels. For this reason, on 19 September, the Taiwan Navy set up an "imaginary enemy group" to simulate Chinese Communist Navy missile speedboat and torpedo boat tactics. During force-11 winds on 28 November, eight missile speedboats of the imaginary enemy group carrying Hsiungfeng Model 1 missiles launched missile attacks against the Navy's DDG No.

915 missile destroyer. Within the short space of several minutes in this live troop exercise, the guided missile speedboats and the destroyer demonstrated exciting electronic warfare and antimissile combat capabilities. Clearly, a live exercise on both sides of the strait would be a "pursue and overtake" situation.

The plans for attacking Taiwan that the Chinese Communist Central Military Commission and the General Staff have drawn up in recent years are dazzling to behold. They include plans for blockading the Taiwan Strait, for attacking eastern Taiwan, for landings on offshore islands, for launching urban guerrilla warfare, and for hit-and-run naval warfare tactics. If Taiwan remains internally unified, steadfast, and self-reliant, an attack on Taiwan will not be able to succeed. However, if there is panic in Taiwan before warfare begins, such as opposition personalities vying with each other to play the Chinese Communist card, or if there is disillusionment on the propaganda front, or if treasonous acts are committed in the economy, Taiwan's future will be problematical. Not long ago, Singapore's Lee Kwan Yew issued the following warning: "The fall of communism in China may be expected, but it is to be hoped that Taiwan will not fall before the Chinese Communists." Most Chinese both inside and outside China feel the same way.

Chart From G-2 Intelligence Bureau of the Ministry of National Defense Showing Chinese Communist Military Strength

	Total Strength	Strength Facing Taiwan	Deployment and Weapons Development for Use Against Taiwan
Army	<ul style="list-style-type: none"> —2.22 million —24 group armies including three mechanized group armies and six motorized group armies. 	<ul style="list-style-type: none"> —Three group armies composed of 320,000 men in the Nanjing Military Region facing Chinmen and Matsu. —An additional 6 reserve divisions of more than 70,000 men. —Each group army has one or two crack units consisting of on-duty divisions and special battalions that can go into battle at once. —The Jinan and Guangzhou Military Regions can transfer troops at once to provide support. 	<ul style="list-style-type: none"> —Deployments in many war preparedness postures —Weapons systems under active development include: 1) M-class short range maneuvering missiles. 2) Improved Model 59 II battle tanks and infantry combat vehicles. 3) Improved 152 and 155 mm artillery. 4) research and development of gun fanzhi [0646 0455] radar, new tanks, and armed helicopters.
Navy	<ul style="list-style-type: none"> —More than 2,300 combat vessels of all kinds. —Of the combat vessels, more than 110 are submarines assigned to North China Sea, East China Sea, and South China Sea fleets. —The South China Sea fleet has one army brigade, and the East China Sea and North China Sea fleets are also to have one army brigade each. 	<ul style="list-style-type: none"> —The East China Sea Fleet, which threatens Taiwan, has more than 830 warships. —More than 300 ships are directly deployed in the Taiwan Strait between Shacheng and Shantou. —The East China Sea Fleet possesses the strongest amphibious warfare capabilities. —The East China Sea Fleet has "fast combat groups." 	<ul style="list-style-type: none"> —Improved coastal defense unit firepower. Readjusted ship force organization to increase the capabilities of observation, monitoring, and communications units —Fast combat groups targeted offshore from mainland. —Equipment development includes: 1) Research and development of Model 052 4,000-ton guided-missile destroyers; 2) research and development of titanium metal Model 039 submarines; 3) research and development of Model 037 missile speedboats; and 4) research and development of minelayers, degaussing vessels, blue water supply ships, and intelligence ships.

Chart From G-2 Intelligence Bureau of the Ministry of National Defense Showing Chinese Communist Military Strength

	Total Strength	Strength Facing Taiwan	Deployment and Weapons Development for Use Against Taiwan
Air Force	<ul style="list-style-type: none"> —More than 6,200 fighter planes of all types. —Organized in four headquarters and seven commands. —The Second Artillery (strategic missile unit) has six army-level bases with 14 subordinate launch brigades and one independent launch regiment equipped with more than 100 missiles of all kinds. 	<ul style="list-style-type: none"> —At the 13 airfields within 250 nautical miles of Taiwan, only 200 fighters are ordinarily stationed, but more than 1,000 may be brought in at anytime —Mixed air defense brigades are deployed in coastal areas. 	<ul style="list-style-type: none"> —Forces in the southeastern region are deployed according to the principle of "a small number of troops forward, and many troops mobile to form a flexible in-depth deployment. —Equipment under development includes: 1) Production of 120 F-7's annually; 2) importation of MiG-29 engines and navigation and electronics systems to improve the F-8 II's. Annual production of about 25 planes to replace the F-6's. —Annual production of F-7 fighter bombers to increase from 10 to 12 to replace the existing F-5 and F-6 fighter bombers. —Obtaining assistance from Italy and France for the improvement of the F-5 navigation and electronics systems. —Copying of infrared guided air-to-air Thunderbolt-series missiles. —Research and development of mobile tactical missiles.

Sino-British Friction Becoming Acute*91CM0250A Hong Kong MING PAO in Chinese
21 Jan 91 p 30*

[Article by Pi Hai-juo (3968 3189 5387): "Sino-British Dispute Attacks Hong Kong Government's Will To Rule"]

[Text] Since the appearance of the "Basic Law," Hong Kong has entered the "late transition period." In conjunction with the rapid approach of 1997, there have been ever more opportunities for the Chinese side to intervene in Hong Kong politics, and the strength of the Hong Kong government's will to rule has been tested.

Good Preparations for Interfering With the Hong Kong Government

The government that rules Hong Kong has been subjected to all manners of restrictions during the transition period. It goes without saying that it is in a difficult position, since it must obtain the approval of the Chinese side when administering, and must also safeguard the interests of Britain and Hong Kong. In reality, when the Chinese side does not agree with the drafting or implementation of policies, it goes to great lengths to attack the Hong Kong government's will to rule. This is the way the Chinese do things; there are four reasons for this. First, it is natural that the Chinese side has increased its vigilance towards Britain's administration of Hong Kong in order to block the British government's "plot" to covertly extend British colonial rule in Hong Kong. Second, the Sino-British Joint Declaration stipulates that before 1997 the power to rule Hong Kong still belongs to the Hong Kong government, although as they try to play a supervisory role in Hong Kong's political and economic development during the transition period, the Chinese will find it difficult to avoid interfering with Hong Kong's administration using other means. Third, early intervention in Hong Kong politics will be of benefit in terms of controlling and seizing the real interests of Hong Kong after 1997. Fourth, the embryonic form of the first government of the Special Administrative Region [SAR] will take shape in 1995; within these several years, the Chinese will need to interfere in Hong Kong politics, in order to shape the future government of the SAR while suitably preparing for the transition. Thus it is evident that the Chinese side will understandably give many directions to the Hong Kong government before 1997. One may say that the "lame-ness" of the Hong Kong government is due to this.

Clarifying the Details of the Hong Kong Government's Finances

Recently there have been two examples of the Chinese side using specific incidents to attack the Hong Kong government's will to govern. The first was when the Chinese made suggestions during the drafting of the "City Program Draft." The suggestions primarily concerned restricting how the New Territories could be used, giving city development a planned character, and

making environmental protection more effective. Basically, the draft does not effect the rights and interests of businesses or run counter to the provisions of the Sino-British Joint Declaration and the Basic Law; it is absolutely within the rights of the Hong Kong government to draft such a plan. However, it has attracted criticism from the Chinese side. They say that the Hong Kong government's approach is inappropriate, and that it goes against the promises of the Sino-British Joint Declaration concerning the rights and interests of the people in the New Territories. No doubt the Chinese side issued this criticism of the Hong Kong and British governments, which still hold full governing power over Hong Kong until 1997, in order to curry favor with New Territories figures. Yet the purpose of using these attacks on the popular trust of the Hong Kong government's rule is all too clear.

An even more notable example of the desire to interfere in Hong Kong's government is the dispute over the construction of a new airport. It is completely understandable that the Chinese side must comprehend the details of the plan, since it is a large-scale construction effort that will straddle the 1997 transition. Thus, the Chinese have stated that, within the transition period, all measures for dealing with questions extending beyond 1997 must naturally be conducted under the conditions of Sino-British cooperation and consultation. Yet the aim of the Chinese side does not stop at the level of understanding and consultation. There are at least two points to keep in mind concerning the expected goals of the Chinese side. The first is their desire to understand the details of the organizational structure of the Hong Kong government (particularly the financial aspects), in order to prepare for the future transfer of control. The second is their desire to further weaken the Hong Kong government's will to rule and build a ladder to progressive interference in Hong Kong politics. Regarding the first point, the construction of the airport was attacked by Lu Ping [7627 1627], director of the Hong Kong-Macao Office, who criticized such a use of foreign exchange reserves; in fact the purpose was to require the Hong Kong government to publicize the details of Hong Kong's financial reserves. Before a meeting of the second airport specialists group in Beijing, the Hong Kong government reaffirmed that it would not reveal the real amount of its foreign reserves at the meeting; this statement is explained by the fact that this was precisely the aspect on which the Chinese side had been somewhat demanding. Concerning the second point, the Chinese side went against the principle of maintaining the secrecy of the contents of the meeting; after the airport specialists' meeting, the contents of the meeting were revealed, along with Chinese figures' comments on the matter. This was clearly done in order to fully utilize public opinion to pressure the Hong Kong government. If we pay careful attention to the public statements of Chinese officials during those several days, to the heat and the mercilessness, we can see the connotations.

Airport Question Brings Controversy

On 10 January, before the first day of talks at the group's second meeting, Luo Jiahuan, acting director of the Chinese airport group, stressed that with regard to private investment in the airport, preference should be given to investments by Hong Kong businessmen. On 11 January, while receiving a visiting mission from the Chinese General Chamber of Commerce, Ji Pengfei, member of the Central Advisory Commission, stated, "On this question, the governments of Hong Kong and Britain have not been frank with us. They hope that we will be supportive, yet they do not give us any data and they do not tell us what their intentions are. With such confusion, how can we support them? China is a large country, and after all, one cannot humor China as one would humor a little child." On 12 January, Luo Jiahuan pointed out, "If the governments of Hong Kong and Britain are now making decisions in the name of the future SAR, this is interference in China's internal affairs. If, concerning the question of a new airport, the governments of Hong Kong and Britain do not adopt an attitude similar to that of the Chinese side, and also a high level of responsibility, it could leave a dishonorable chapter in their final years of Hong Kong rule." On 13 January, Chen Zuoer, deputy head of the Hong Kong-Macao Office of China's State Council and member of the Chinese side's new airport group, stated, "China has the right to deliberate all important matters relating to the 1997 transition; Britain does not have the right to make decisions unilaterally." These discussions, coming in rapid succession and carrying a sense of intimidation, were clearly not randomly fired shots. The Chinese side has repeatedly said, "We fully understand that Hong Kong needs to build a new airport, and China has consistently been positive, cooperative, and open." However, when we look at and compare the Chinese public pronouncements on this issue, it is very easy to see contradictions. The Chinese worry that Hong Kong capital construction projects will become a financial burden on the future SAR is a real one. However, despite the use of high-sounding words when handling Chinese-Hong Kong contacts, which are always conducted at

different administrative levels, it is quite clear that the goal is to attack the Hong Kong government's will to rule.

China and Britain Take Tough Stances, Hong Kong Suffers

Up to now, the Chinese and British sides have already arrived at diametrically opposed positions regarding the new airport controversy. It is very difficult to predict in what direction the state of affairs will move. On 13 January, Mai Kao-le [7796 7559 2867], head of the Hong Kong airport group, stated that the Hong Kong government has a clear responsibility for running Hong Kong until 1997. On 14 January, the Hong Kong government reaffirmed that it has absolutely clear authority to determine what administrative measures Hong Kong will adopt during the transition period, and the government pointed out that the airport construction will proceed as normal. This is a clear indication that it has adopted a tough stance for dealing with the Chinese. Unless there is a breakthrough in the controversy between China and Hong Kong over construction of the new airport, it will certainly have a significant effect on investor confidence and on Hong Kong's stability and prosperity. In reality, both China and Hong Kong have thoroughly and strongly expressed their views on this, but the time for mediation is clearly shrinking. If the Chinese take a consistently tough posture, and even go so far as to publicly interfere in Hong Kong affairs, this will clearly not be viewed favorably by Hong Kong people. Naturally, there is no way to determine the consequences and the effects if Hong Kong's government, under the rational premise of reiterating its right to rule prior to 1997, pushes forward a major capital construction plan without the permission of the Chinese and with only limited Chinese support. Under these conditions, it is natural that there would be a greater possibility for the Hong Kong Rose Garden Plan to become a financial burden on the future SAR. However the belief is that the tendency for the Chinese and British sides to lack confidence and understanding in each other, and the tendency for a good situation to turn bad is not pleasing in any way to China, Britain, or Hong Kong.

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